BOARD OF GOVERNORS

INTER-AMERICAN DEVELOPMENT BANK

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REPORT ON THE EIGHTH GENERAL INCREASE IN THE RESOURCES OF THE INTER-AMERICAN DEVELOPMENT BANK

RESOLUTION AG-6/94

REPORT ON THE EIGHTH GENERAL INCREASE IN THE RESOURCES OF THE INTER-AMERICAN DEVELOPMENT BANK

WHEREAS:

The final report issued by the Committee of the Board of Governors on the status of the resources of the Bank recommending the increase thereof has been examined by the Board of Governors;

The member countries recognize the pressing need to take all adequate action to ensure that the Bank continues extending its support for the development needs of the region;

The Board of Governors

RESOLVES:

To approve the report entitled "Report on the Eighth General Increase in the Resources of the Inter-American Development Bank" issued as Document AB-1704; to recommend that the member countries take such action as may be necessary and appropriate to give effect to resolutions similar to those contained in said report; and to urge the members to make available to the Bank as soon as possible their respective subscriptions and contributions.

(Adopted August 12, 1994)

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CHAPTER I

PROSPECTS FOR GROWTH AND SOCIAL DEVELOPMENT IN LATIN AMERICA

1. INTRODUCTION

1.1 Latin America has experienced a fundamental change in economic policy designed to accelerate economic growth and increase equity. As a consequence, a number of countries in the region have made progress in restoring macroeconomic balance, in advancing structural changes designed to enhance international competitiveness, and in the search for broader participation to include all strata of society in the distribution of the benefits of growth. This has encompassed efforts to achieve a strengthened but smaller, fiscally disciplined government which complements the private sector. It also includes a more open international trade and payments regime, a liberalized system of incentives which reduces discretion in the administration of controls, licenses and subsidies, thereby placing greater reliance on market forces and more equitable and effective social service delivery systems.

1.2 The cornerstone of this approach has been the creation of an environment which is supportive of savings, investment and growth through macroeconomic stability within a context of social concern and strengthened democratic institutions. Of special significance is that these policy changes have been initiated and sustained by governments of different political orientation. This has been made possible by sustained political support for change which exists among broad segments of the population in these countries. The consensus for reform, not always present in Latin America, was born of the economic crisis of the 1980s. It has emerged as the consequence of sustained dialogue among policy makers, political leaders and private sector agents.

1.3 In a number of countries, the process of policy reform and adjustment is fairly advanced. In others, such efforts are at an earlier stage. Only in a very few countries has it been difficult to initiate the necessary reforms. The challenge for each country is different, but all share the same imperative: to create and sustain a policy environment supportive of economic recovery. For this to occur, uncertainty associated with macroeconomic imbalance must be reduced, transparency of economic policy must be maintained, the investment climate must improve, incentives for capital flight must be eliminated, returns on private investment must be strengthened, and public investment in economic and social infrastructure which complements private investment must be increased.

1.4 An essential part of this growth strategy is a more productive use of all available resources, including human resources. Reducing

poverty by increasing the productivity of the poor, an important objective in its own right, plays an especially critical role in the modernization process and in establishing the conditions for sustained economic growth. Without this, the broad segment of the population which has difficulty meeting its minimum food, health, shelter and education requirements remains at the margin of the productive process, thereby constraining advance to a decentralized, more open, adaptable and technologically dynamic modern market economy. The objective of such an approach is to reduce social inequality by incorporating fully the most disadvantaged strata of society into the modern economy. Ultimately, political stability and democracy as well as equitable growth are closely linked to the successful implementation of such policies.

2. RECENT DEVELOPMENTS

1.5 Large budget deficits which triggered and maintained an explosive inflationary process in several countries during the 1980s have been sharply reduced or eliminated in most countries. Balance-of-payments deficits brought about, in part, by adverse shifts in the region's terms of trade, by excessive public sector spending, by record high interest rates on these countries' variable rate external debt, and by overvalued real exchange rates which were financed by unsustainable increases in external borrowing have been brought under control. Excessive external debt burdens which reduced resources available for investment and thereby slowed resumption of economic growth have been made more manageable for some countries under the international debt strategy for dealing with commercial debt, the easing of terms on Paris Club reschedulings, strong export performance and increased capital inflows. Since 1989, as a consequence, total interest due as a percentage of exports of goods and services dropped significantly (see table). For the region the drop was from 18.3 to 13.5 percent, reflecting in part the sharp decline in the interest burden of Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Uruguay and Venezuela.

1.6 Massive subsidies and the expansion of inefficient state enterprises which pushed scarce resources into unproductive uses have been cut sharply in a few countries through deficit-reduction measures, closure or privatization. High trade barriers used to shield local firms, some of which were inefficient, from international competition have been substantially reduced in almost every country in the region. To complement opening of their economies to international trade, most have taken vigorous action in the last three years to increase trade with their neighbors through subregional free trade agreements.

1.7 As a consequence of the progress made in implementing these reforms, there has been a significant improvement in economic

performance in the region. After several years of stagnation, regional GDP rose by 3.7 percent in 1991, 2.9 percent in 1992, and 3.3 percent in 1993 (see Table I-1). A number of countries – Argentina, Chile, Guyana, and Panama – have been especially successful in re-establishing growth, with an average real GDP growth in excess of 7 percent for the period 1990-1993. Belize, Costa Rica, and Uruguay also showed strong economic performance in the last two years with average growth rates above 5.5 percent. This upturn in economic activity was accompanied by substantial progress in reducing inflation. Almost all countries in the region now have relatively low rates of inflation. The greatest progress was achieved in some of the countries with extremely high inflation. Argentina, Nicaragua and Peru, which were experiencing near hyperinflation in 1988-1990, sharply reduced the rate of price increase in the last several years. Bolivia, Chile, Colombia, Ecuador, Guatemala, Mexico, and Trinidad and Tobago also significantly reduced inflation.

1.8 The favorable expectations generated by the reform process stimulated private investment, encouraged a boom in the equity markets, and continue attracting substantial financial flows from abroad. The net increase in capital flows, coupled with the lowest U.S. interest rates in more than a decade, has been of such a magnitude that it has reversed the transfer of resources in the region's favor, thus facilitating the full conversion of domestic savings into new capital formation. As a result, the region's gross domestic investment grew at an average rate of 8.0 percent in the last three years, after several years of continuous decline, providing a major stimulus to economic activity. For many countries in the region there was a substantial recovery of gross domestic investment. Strong increases have been experienced by Argentina, Belize, Bolivia, Chile, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Panama, Peru, and Uruguay.

Table I-1								
MACROECONOMIC INDICATORS: Latin America and the Caribbean, 1986-1993								
Indicators	1986	1987	1988	1989	1990	1991	1992	1993
Real GDP Growth	4.5	3.4	0.5	0.6	-0.1	3.7	2.9	3.3
Inflation (% change in CPI)	87.7	125.9	255.5	466.1	550.5	142.2	143.5	228.9
Gross capital formation (% of GDP)	21.3	21.8	21.9	20.2	19.6	20.4	21.7	22.0
Domestic consumption (% change)	6.1	2.2	0.3	2.1	1.1	4.8	3.1	3.7
Net capital inflows (US$, billions)	8.8	12.7	6.3	5.6	17.0	35.2	58.1	65.0
Net transfers (US$, billions)	-22.6	-19.4	-28.8	-33.4	-18.7	3.1	28.3	35.4
International reserves (US$, billions)	30.2	36.3	29.1	31.5	46.4	64.2	86.7	110.6
Ratio of reserve to imports (%)	25.6	38.7	27.3	27.6	35.4	43.0	48.6	56.2
Ratio of debt to GDP (%)	49.2	50.5	47.6	46.5	49.1	46.3	45.1	43.9
Ratio of debt to exports (%)	427.0	397.0	334.0	297.8	283.9	293.8	282.1	277.2
Ratio of interest payments to exports (%)	36.6	25.3	26.1	18.3	14.1	15.0	13.5	13.5

1.9 Net capital inflows of US$175 billion in the last four years, much of them in the form of non-debt creating flows, have dramatically changed the external accounts of Latin America. More than half of the total capital inflow has been used to rebuild international reserves; the remainder has financed a substantial increase in imports. This is a positive development because it indicates that the process of transformation of the financial flows into fixed capital formation and into increased consumption is under way. In 1993 the accumulation of more than US$23 billion in international reserves which took place raised total reserves to over US$110 billion, the highest nominal level ever.

3. SOCIAL REFORMS

1.10 Experience indicates that while macroeconomic stability and structural adjustment are necessary to revive growth, they are not sufficient to deal effectively with the social problems which exist in the region and which would continue over the long term in the absence of social reform. Even in those countries which are now most advanced in the adjustment process and where the recovery of economic growth is well under way, such problems continue to exist and the implementation of programs designed to address them is receiving priority attention.

1.11 Poverty and its associated social dislocations are rooted in the historical experience of the region. During the 1980s, existing social problems became more serious. Economic stagnation contributed to a decline in the growth of employment opportunities,

erosion of key institutions and deterioration of essential public services. Health, water supply and the environment deteriorated. Education was seriously underfunded and, as a consequence, progress in developing a well trained, more productive and flexible workforce was disrupted. Throughout the region, a high incidence of underemployment, depressed per capita incomes, and a level of social services which has failed to keep pace with the growing needs of an expanding population have resulted in an enormous backlog of social and institutional needs.

1.12 As countries have carried out reform programs, the best informed, most flexible economic actors with the knowledge and capital to respond to the new economic incentives have been the main agents of change. As a consequence, benefits have been least for the poorest, who lacked the training, flexibility and resources to adapt quickly to the changed incentives. They continue to be the most vulnerable since they are least equipped to respond to change, are living at a subsistence level and are unable to contribute to the growth process. High priority has been assigned by governments throughout the region to opening economic opportunities for the poor and to empowering them to become more productive participants in economic growth. Greater recognition is being given to the key role of women in the development process. A special focus of these countries' efforts is to increase health, education, and vocational skills for all, especially the poor. Equally important is a pace of economic growth which ensures adequate growth of opportunities for productive employment.

1.13 Currently many of the social programs in the region do not reach the most disadvantaged segments of the population. Economic reform is being directed to improving the distributive impact of these programs and to making them more efficient, thereby enhancing their contribution to incorporating the poor into the modernization process. Programs which are targeted to the poor have a special role to play in this regard. A substantial increase in the quality and targeting of social services can be obtained through institutional reforms aimed at increasing the cost effectiveness of social service delivery systems.

4. REQUIREMENTS FOR ACCELERATING DEVELOPMENT

1.14 One of the lessons learned by Latin American countries from historical experience is that acceleration of development requires simultaneous progress on a number of interrelated fronts. Reform of the public sector is an essential part of this process. A number of countries in the region have initiated such reforms in recognition of the importance of providing government with the instruments of a modern state so that they can carry out their functions efficiently in support of the development process.

1.15 The objective of such reform is to strengthen public administration, including the capacity to analyze, formulate and implement economic and social policy, to manage public expenditure, to improve the design of tax policy and tax administration, and to introduce an appropriate regulatory framework for complementing ongoing privatization programs. It also encompasses modernization of judicial systems, provision of basic support services to enhance the efficacy of the legislative process and strengthen the financial viability and efficiency of social security systems. These efforts, aimed at modernizing, focusing and strengthening the machinery of the State, are essential to accelerating economic and social development.

1.16 Of equal importance for accelerated development is improving the efficiency and growth of the private sector. To compete successfully in global markets, the private sector in these countries will have to speed up absorption of modern technology. This will require improving human capital, as well as technological and other economic infrastructure. Deepening and widening of domestic capital markets, or creating them where they do not exist, is also of high priority so that increased domestic and external savings can be mobilized for investment in modernization of the private sector. Such measures would stimulate the continuing reflow of capital from abroad and channel some of it to long-term finance for modernization of industry and agriculture and to commercial infrastructure.

1.17 Modernizing both the agricultural and industrial sectors is an essential part of the trade liberalization process. Growth of developing countries is closely linked to exports of manufactures and agricultural products. To increase international competitiveness, countries will need to sustain the momentum of market reforms, obtain greater access to external markets through formation of strategic alliances with the private sector abroad, construct better international communication links and adopt new production and management techniques. Countries with a well trained labor force and group of entrepreneurs and which maintain open trade and investment flows are best able to absorb and disseminate such techniques domestically. Failure to emphasize human resource development at all levels and to establish international information links will make it more difficult to compete successfully in global export markets.

1.18 Of special importance is the so-called informal sector. This sector has grown rapidly as overall economic growth stagnated in the 1980s, and the challenge is now to integrate it more fully into the national economy. This will require both modernizing microenterprises and enhancing opportunities for growth of small and medium-sized industry. This is an important step not only for increasing the efficiency of the overall economy but also as an integral part of social reform since the income levels of many of those in the informal sector are low. Small and medium-sized firms

are those best suited to channel entrepreneurial creativity, most effective at putting new technologies to use, and most active at creating new jobs. Part of the process of modernizing the private sector is to promote a more open approach that will facilitate integration of the informal sector and of microenterprises into the economy. Programs in support of microenterprises and the informal sector generally are vital to this process.

1.19 There can be no economic growth without a stable society. The sweeping economic reforms being implemented in Latin America will achieve the desired results only if they take place within a more integrated society in which factors of exclusion are being reduced so that all groups can be involved in and benefit from modernization of the productive sectors. A more integrated society can only enrich this process through the creativity and support of a large number of economic agents concerned with its success, leading ultimately to the greater social cohesion which is essential to sustained, accelerated economic growth in the future. The essential prerequisite for overcoming marginalization and poverty is for society as a whole to support a process of political participation which leads to democratic consensus-building and stable, responsive and transparent government. This will strengthen social cohesion, promote the participation of all in the productive process and help to achieve agreements which favor a more equitable distribution of the benefits of economic growth.

1.20 This goal cannot be attained without meeting challenges on a number of fronts. One of these, of special interest to the Bank, is financial sector reform. This is needed to increase mobilization of domestic financial savings for investment and to strengthen institutions which can allocate these resources efficiently to all enterprises, including small and medium-sized businesses, self-employed workers and microenterprises in the informal sector. Another important challenge is the creation of a network of institutions which can provide technical assistance and expert advice to these types of enterprises.

1.21 Rapid industrialization throughout the region has given rise to severe urban environmental problems. These problems, which for the most part affect low-income groups more seriously, have not been addressed over the past decade of declining public investment. Further progress in dealing with these problems will require substantial investment. In its absence, environmental problems will continue to constrain development. In rural areas, particularly those where small, low-income farmers prevail, high rates of deforestation and soil erosion pose an equally serious problem. The cost associated with arresting degradation of the natural environment and improving the urban environment is enormous, not only in terms of financing but also in terms of the need to create the appropriate institutional and technological capabilities at both government and private sector levels. This is

an effort which will require substantial support from the international financial institutions.

1.22 The gravity of these environmental and natural resource problems has led to important initiatives by governments and by non-governmental agencies within the region. These efforts have ranged from policy, legal and institutional reforms to design of investment projects and are based on recognition of the increased financial resources required for sustaining such initiatives.

5. PROSPECTS FOR THE WORLD ECONOMY: INCREASED INTERDEPENDENCE

1.23 As countries in Latin America have moved dramatically to reduce trade barriers and to reestablish access to world capital markets, their interdependence with the world economy has grown. Developments in the industrial countries are increasingly important in their impact on trends in the economies of Latin America. The future course of world commodity prices remains important. Where a secular decline in the price of specific commodities appears unlikely to be reversed, countries must undertake changes of their productive structure aimed at creating new sources of income and export earnings. Given the Latin American countries' more recent success in diversifying and expanding nontraditional exports, including food, raw materials and manufactured goods, access to industrial country markets has assumed greater importance. Given the more integrated and competitive global business environment, growth prospects for these countries will, to a significant extent, be determined increasingly by their success in strengthening linkages with the world economy.

1.24 The outlook for the world economy for the remainder of the decade is mixed. The recovery in the United States is strong and the other industrial countries, as a group, are now experiencing a recovery from the cyclical downturn they recently went through. The consensus projection for industrial country growth in the second half of the 1990s assumes moderate success with management of economic policy in these countries, including reduced budget deficits, lower inflation, some easing of real interest rates and higher rates of growth that in the first half of the decade. Average growth for the entire decade is expected to be below that of the 1980s. However, the long awaited, successful conclusion of the seven years of negotiation in the Uruguay Round of GATT gives grounds for optimism as to the future of the world trade system and world economic growth.

1.25 There are risks associated with this consensus projection which should be taken into account. It is possible that industrial countries which thus far have avoided inflationary expectations may enter a period of rising budget deficits, increased inflation, prolonged conflict over wage bargaining and high real interest rates to dampen inflationary pressure. Other countries may have no

greater success in dealing with budget deficits than in the past; this could put continued upward pressure on real interest rates and weaken the recovery. The reform process in Eastern Europe and the former Soviet Union could falter. Regional trade blocs could turn inward and trade diversion increase. While these are not elements of the prevailing consensus base case at present, all are plausible. Should they materialize, the external environment will be less supportive of economic recovery in the region.

6. INCREASING INTERNATIONAL COMPETITIVENESS

1.26 Latin American countries moved forcefully over the past year to reduce trade barriers, to integrate more closely with the world, and to establish regional and subregional integration agreements such as MERCOSUR, CARICOM and the Central American Common Market. Approval of the North American Free Trade Agreement is bound to enhance the growth prospects of the three member nations and opens the way for a future Western Hemisphere Free Trade Agreement. In the more open, competitive world economy of the 1990s, Latin American countries' need to press ahead with policies and programs designed to increase their international competitiveness now has assumed increased urgency. An efficient supply response of domestic producers of both import substitutes and exports will be a critical determinant of the sustainability of the opening up process.

1.27 To achieve the rates of economic growth which are required to absorb the vast pool of underemployed labor which accumulated in Latin America during the decade of the 1980s, the region's exports will have to grow more rapidly than world trade throughout the rest of the 1990s. Latin American countries will have to increase their share of world markets. To achieve this, international competitiveness must be enhanced by expanding and deepening market reforms; by absorbing, disseminating and mastering new, productivity-enhancing production, management and marketing technology; and by building stronger international trade, finance, investment and communications links.

1.28 Reduced transport and communication costs have increased globalization of production and marketing. This has resulted in greater specialization between countries in different products and within different stages of production. New technologies which permit more differentiated products, closer links between production and demand and "just-in-time" inventory management, made possible by computerization, require close coordination between designers, producers, suppliers and retailers. Greater competition in global and regional markets has increased pressure on firms in Latin America to adopt global corporate strategies consistent with the dynamic comparative advantage of the economic environment in which they are based. Local manpower skills, modern infrastructure to support production flexibility required to adhere to quality and

delivery specifications, and an international network of domestic business have grown in importance.

1.29 Increasing the standard of living without losing international competitiveness requires raising productivity. A cost-effective way of achieving this is to adopt management and production techniques which have been developed by others. Foreign direct investment and creation of strategic alliances between local and foreign firms can facilitate this. Countries with a highly skilled, well educated labor force and which have open trade and investment regimes are the best positioned to absorb and disseminate internally innovative production and management techniques. Those which are not successful in accelerating human resource development and in establishing international links will be left behind in the increasingly competitive global market. Latin American countries cannot be confined to merely exporting raw materials and the products of low-cost labor. The region needs to take advantage of the creativity of its people, enhancing its human resources through training and development, scientific knowledge and new technology. This is why it is so important to achieve greater integration of the most vulnerable segments of society into the modern economy.

1.30 To accelerate their export-led growth, the countries of the region will have to diversify their exports into those areas where the growth of their value added is likely to be the fastest. These will reflect the region's comparative advantage as a supplier of resource-based products including agricultural, mineral and manufactured products such as processed raw materials, non-traditional processed foodstuffs and beverages. The growth of agricultural exports will be assisted by the opening up process, by deregulation and by elimination of the past "anti-agrarian" bias of sectoral development policies. These actions have reinforced the comparative advantage derived from the region's abundant natural resources.

1.31 Both the growth and composition of exports of manufactured products are likely to be strongly influenced by three mutually reinforcing developments. First, as industrial countries move into more technology-intensive products, there will be an increasing demand for other products that are produced more efficiently abroad, providing Latin American countries with growing export opportunities for products which are farther up the technology chain. Second, increased investment in human resources and accelerated absorption and development of new technologies will increase inter-industry trade. Third, trade liberalization and expansion of regional free trade areas will provide increased opportunities to obtain economies of scale and a more efficient export manufacturing base.

7. EXTERNAL CAPITAL REQUIREMENTS AND PROSPECTS

1.32 Taking into account expected economic trends in the world economy in the 1990s, the global savings-investment balance might remain tight throughout the decade. Traditional sources of external finance for developing countries will be scarce. Borrowing will be scrutinized more closely and additional effort will be made by both official and commercial lenders to secure the most effective distribution of their resources. Those countries in the region which are most successful in implementing policies to resume growth and restore their creditworthiness will have the greatest access to additional flows. This has already started to occur as several countries have carried out far-reaching reforms, negotiated reductions in debt, reestablished growth and regained a position of creditworthiness in world financial markets.

1.33 As a consequence, net capital inflows to the region increased in the period from 1991 to 1993. The inflow has included bond issues, private placements, commercial paper, certificates of deposit and increased foreign direct investment. Substantial repatriation of flight capital appears to be included in these flows. The inflow has been concentrated in a few countries – Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. Little has gone to others. Moreover, the pattern of these flows suggests that the process is still fragile. The capital inflows which have taken place so far appear to be limited in their developmental impact, having gone in part to bidding up the price of existing financial assets rather than fully contributing to increased long-term investment which accelerates development.

1.34 The fact that capital inflows have also taken place in some countries in the region which are still experiencing major macroeconomic imbalances and severe financial problems suggests that investors may be anticipating improvements which have not yet taken place, based on the improved economic performance which has occurred in other countries in the region. If these macroeconomic imbalances are not corrected, a slowness in capital flows to the region could result, and the decade of the 1990s could witness once again a period of acute external capital shortage for a number of countries.

1.35 In spite of the capital inflows, the risk still exists that inadequate long-term external finance could again constrain development and undermine adjustment efforts. To date only relatively few countries and large firms in Latin America have been successful in accessing international capital markets on a sustainable basis. A portion of the capital flows have been relatively short-term in nature and not suitable for many of the long-term developmental expenditures which now must be made by the countries in the region if social and economic infrastructure are not to impede sustained recovery. With the continued upward

pressure on world interest rates which is expected in the 1990s, private lending is likely to remain limited and become costly even for countries which maintain their creditworthiness. For smaller, lower income countries and for small and medium-sized firms, it is unlikely to be available.

8. OFFICIAL FINANCING

1.36 Even if the region is successful in attracting increased private capital, such flows tend to be directed more to the larger, middle-income countries and to the larger, more established firms. Moreover, private flows have characteristics which make complementary flows of official development assistance essential. Such flows are typically associated with expansion of investment in plant and equipment which requires complementary investment in economic and social infrastructure. In the absence of domestic fixed income capital markets, such infrastructure investments must be financed by official development assistance. This need is particularly acute in Latin America where the 1980s have left most countries with enormous infrastructure deficits. The infrastructure gap has already affected adversely economic growth in the region and this in turn has limited private capital inflows.

1.37 The financial requirements of infrastructure are large. These will not be met without a close partnership between private and official finance. This is especially true for power generation and even more so for water and basic sanitation. Large investments in electricity generation need to be in hydro power which requires terms the private financial markets cannot provide. The alternative would be to rely on thermal power, with its adverse environmental impact. Water, sanitation and basic social services such as health, training and education also require official involvement. While the private sector can contribute to more effective delivery of such services, and in some cases can provide funding, this will have to come primarily from official sources. While introduction of realistic user charges may increase the sustainability and efficiency of such services, their initial capitalization cannot be covered by private sources of finance since the returns from such investment in human capital are frequently difficult to capture and may only occur over a period far in excess of private investors' time horizon. Long-term official development finance has an essential role to play in the design and support of these services.

1.38 Concessional resources for smaller, lower-income countries or countries which are in the early stages of adjustment can be critical in helping to bridge the financing gap, which is needed to facilitate trade flows and to cover the reconstruction and expansion of infrastructure. Countries experiencing a large, unexpected external shock and a sudden deterioration in their external position are unlikely to attract private capital flows

during the time such flows are most urgently required. For these countries, official assistance may be the only source for financing their external deficit. For countries which are just completing the adjustment process and have established a base for recovery of investment and output, official development assistance can have a strong catalyzing effect on private flows.

1.39 Official sources of external finance for all developing countries will be limited in the 1990s. This will be especially true for Latin America. Net resource flows on grants and bilateral loans to the region, concessional and non-concessional, have already begun to decline. Net flows on lending by multilateral institutions fell from US$4.1 billion in 1990 to US$3.4 billion in 1992. Among the international financial institutions, the Inter-American Development Bank is the only official lender which is expected to have positive net flows in the years ahead. In the absence of an Eighth Replenishment, net flows of the IDB would start declining in 1994 and would not be sufficient to offset the negative net flows of the International Monetary Fund and the World Bank.

9. CONCLUSION

1.40 As the next millennium approaches, the region must move from a period of crisis and reform toward achieving growth that is financially, environmentally, and socially sustainable. This would represent nothing less than a transformation for the region and it will be a major challenge for the Bank to assist countries in this effort.

1.41 Countries of the region are choosing a path to sustainable growth that is based on liberal, open, market-oriented economies that can compete successfully in the global economy. Realizing the reforms necessary to create these economies while maintaining democratic societies is a formidable task. It will require creating dynamic private sectors to generate employment and income; and efficient public sectors to provide the social, economic, and regulatory infrastructure necessary for growth. Since social and political stability are indispensable conditions for creating sustainable growth, all parts of society must believe that they have a stake in the system and in the country's future. This will mean that equity considerations must be given greater weight than in the past and countries will have to make a determined effort to bring excluded groups into modern society.

CHAPTER II

THE BANK'S LENDING PROGRAM FOR THE PERIOD OF THE EIGHTH GENERAL INCREASE IN RESOURCES

1. GENERAL CONSIDERATIONS

2.1 Traditionally, the Bank's contribution to the region's development has been in the area of project investment financing. Using this modality, the Bank showed leadership and innovation from the beginning. Early in its operations, the Bank started financing projects in the social sectors such as potable water, an activity subsequently adopted by other institutions. With the Seventh Replenishment, the Bank extended its assistance to the region by participating in the ongoing restructuring process through policy-based sector loans. This new channel allowed the Bank to become a more active player in the region's efforts to overcome the crisis of the 1980s. Bank operations helped countries overcome the transitional problems associated with opening up their economies to external competition, reforming the financial systems, restructuring the public sector, removing market distortions, and strengthening fiscal and customs systems, among others. The Bank also supported countries in their debt reduction efforts.

2.2 As we enter the Eighth Replenishment, the Bank must expand its operations in the social areas. As the region comes out of the acute financial crisis of the 1980s, it is placing greater emphasis on resolving the problems of the "social debt" in order to ensure more equitable development. Operational work in the social sectors, including dialogue, lending, and project execution will be a major focus of the Bank's overall activity to support efforts of borrowers to deal with this challenge in the 1990s.

2.3 Increased lending in the social sectors will not, however, be sufficient. To maximize its impact during the Eighth Replenishment, the Bank will seek to ensure that its activities overall contribute directly or indirectly to borrowing member countries' efforts to reduce poverty and to introduce social and economic reforms. In order to meet this challenge, the Bank will review and adjust its own processing capacities and capabilities, both in terms of staffing skills mix and internal procedures, and the organizational structure required to support these adjustments. Concurrently, the Bank will need to strengthen its strategic planning framework, linking country programs with the guiding principles agreed for the Eighth Replenishment, and undertaking ongoing evaluation and adjustment of Bank-supported activities as experience is gained. Strategic planning provides a framework for policy and operational decisions by Management and the Board.

2.4 Within such an overall framework, Bank programs must be fashioned with the recognition that countries are at different stages of development and at different levels of social and political modernization. In many cases, structural economic and social changes, while admittedly difficult to implement, alone can lead to internationally integrated economies and democratic societies. In other countries, these reforms, while necessary, will not be sufficient to lead to sustainable growth until institutions are further developed and social conditions are established that can support the new economic structures being created. For a few countries, the task is even more basic: to create viable structures and institutions that can effectively carry out the legitimate core functions of the State.

2.5 Therefore, the Bank cannot have a single, uniform approach applicable to all countries in the region. The specifics of the Bank's role and lending emphasis will vary depending on the conditions in each borrowing member country and its stage of development. These specifics emerge from a process that begins with country-level analytic work on socioeconomic issues and includes structural analysis of the countries' economic and social policies and problems. This provides the basis for country strategies, which, along with the analysis of the Bank's portfolio in the respective countries, orients the country programming exercise. This work will continue being coordinated with work of other bilateral and multilateral institutions.

2.6 In summary, the Bank is in a unique position to assist its borrowing member countries in making efforts that will lead to sustainable development in the 1990s. As stated in Chapter I, the Bank is now the official lending institution best placed to provide net financial flows to the region, and particularly to the poorer countries. Moreover, as a regional institution with heavy emphasis on a close and continuing dialogue with member countries that are both important shareholders and borrowers, and with an extensive network of Country Offices, the Bank has a strong comparative advantage in assisting its borrowing member countries in the task of restructuring their economies to face the competitive world of the next century.

2. KEY AREAS OF BANK ACTIVITY

2.7 From the analysis in Chapter I of the challenges facing the region, three general areas emerge as crucial for IDB involvement: (i) poverty reduction and social equity, (ii) modernization and integration, and (iii) the environment. These are not new areas for Bank involvement but they are areas where the Bank can bring its experience and expertise to bear in a more focused and refined way to help borrowing member countries meet the challenges they face. Governors, in the Seventh Replenishment, identified four areas of particular importance for Bank action: (i) low-income

beneficiaries, (ii) women in development, (iii) environmental management, and (iv) support for microentrepreneurs. These areas have become an integral part of Bank operations and will continue to be pursued during the Eighth Replenishment in all areas of Bank activity.

A. Poverty reduction and social equity

2.8 The region continues to face difficult problems in the social sphere. The significant gains made in social indices during the 1950s, 1960s, and 1970s were eroded during the 1980s. Deterioration in the social infrastructure, in the sector's public institutions, and in service delivery systems could worsen in the future if the present trend continues. Action needs to be taken now to reverse this trend. Sound macroeconomic policies must be adopted to avoid further erosion of the buying power of wages and to eliminate the distortions that affect development of labor markets and the productive sectors, especially agriculture. Macroeconomic reforms are necessary but not sufficient to ensure more and better opportunities for the poor to enter into productive activities. Implementation of sound macroeconomic policies must be coupled with a renewed national dialogue that will lead to the development of an agenda for social reform based on a solid political consensus. Reforms must aim to broaden social programs and guarantee full participation of all segments of the population, especially the poor, in productive activities, thereby promoting social and political stability. Lastly, programs targeted at poverty alleviation need to be implemented.

2.9 The Bank will thus need to provide support to the borrowing member countries to entrench economic reforms; to develop and implement, on the basis of a solid political consensus, a renewed social agenda; and to simultaneously ensure an adequate safety net for the poor. The Bank's support must be guided by the principle of assisting borrowing member countries to bring to the vast majority of their populations the full benefits of economic growth, by creating jobs and broadening the business base.

2.10 Social policy reform is a complex task that needs to emanate from the political will of each member country. Bank country strategy, operations and dialogue should be supportive of and complement national efforts. In the context of a full dialogue with borrowing members and mutual agreement on the priority to be accorded social projects, the Bank will, during the Eighth Replenishment, increase the number of social projects and the proportion of lending devoted to social sector operations. However, the capacity of most borrowers to manage effectively operations in the social sectors is still limited. For most operations in these sectors, this means project preparation and execution require greater staff inputs and longer gestation periods. This also means that added emphasis must be placed on institution-building operations which, by the very

nature of these operations, translates into a greater number of smaller size operations than the average in other sectors.

The role of the Bank

2.11 The Bank will act on a variety of fronts to attain the objectives set for social reform and poverty reduction.

(a) First, by analyzing, in concert with borrowing member countries, the causes of poverty and the constraints to social progress in member countries. The Bank will produce more in-depth country-level analyses of poverty and the social sectors, so as to enable the full integration of poverty reduction and social equity issues within the country programming process. The goal is to complete such analyses for a substantially larger number of member countries in the coming years, with a view to achieving full coverage of our borrowing member countries in the near future. Such studies will include an analysis of the financial gap for social sector development in each country. As part of its analytic work the Bank will support improvements in the data on poverty and living standards and social indicators in the region's countries, and will periodically conduct studies to assess the progress being achieved in the social sectors in the region. The Bank will also produce a review once every two years summarizing the contribution of Bank operations to the region's progress in addressing social needs and reducing poverty.

(b) Second, the Bank will utilize its programming process to reach agreement with each country on the design of a strategy which has as one of its central aims the reduction of poverty and social sector reform. Available mechanisms for undertaking studies and formulating programs and projects will be placed at the service of the Bank's member countries, including pre-investment loans, the Bank's Project Preparation Facility and other technical-assistance operations. These efforts will lead to a dialogue with each country, with a view to identifying and agreeing on priority areas for Bank action at the country level. In the development of this pipeline, special attention will be paid to the actions of bilateral and other multilateral institutions, as increased coordination of efforts is necessary to avoid undesirable duplication.

(c) Third, the Bank will further strengthen the capacity of its Country Offices in the social areas, so that the Offices can play a strong role both in the early identification and preparation of prospective operations and in monitoring and supervising their execution, maintaining throughout an ongoing dialogue with government authorities.

(d) Fourth, the Bank will begin to work more systematically with borrowing member countries to evaluate the financial sustainability of social sector projects after conclusion of their execution. Ex post evaluation of social projects will be included in the annual program of the Evaluation Office.

2.12 Bringing about a significant reduction in poverty levels is an objective that must be approached simultaneously on a number of fronts.

(a) The central objective of reforms of social expenditures in borrowing countries should be to rapidly improve the efficiency and equity of government action. Social policy adjustments and reforms should include a review and reallocation of public spending towards and/or within the social sectors, since durable reduction of poverty and improvement of human capital formation can be achieved only through sustained budgetary effort with the aim of developing and implementing poverty reduction programs. The Bank will use its dialogue with governments and its financial and technical-cooperation resources to provide assistance in policy design and to improve the efficiency and equity of social expenditures, while acting as a catalyst to increase external resource flows into the social sectors through its interagency coordination and cofinancing activities.

(b) The most pressing problems of critical poverty must sometimes be addressed through emergency programs. In the short run, the harshest aspects of poverty can be mitigated through social investment funds and targeted assistance programs that offer protection for the most vulnerable segments of the population, working with governments in initiatives that can have an immediate impact, especially during adjustment programs. Emergency employment programs can also significantly increase the demand for labor.

(c) New investments are needed in human resources, mainly in the areas of education, health care, and vocational training, both to improve equity and to raise the productivity of human resources. The creation of a workforce that is healthier, better trained, and more productive is essential to increasing employment, modernizing production processes, and achieving social policy reforms that enhance the efficiency and equity of the economic system. The Bank will continue its support for such human resource programs. In these programs, consideration will be given to expenditure on nutrition, health, and education as an investment in human capital, thereby making, on a case-by-case basis and where fully justified, a portion of the recurrent costs of social projects eligible for financing. The aim is that, within a limited time horizon, the recurrent costs of these programs should be financed fully with the countries' own resources.

(d) Government efforts to decentralize social programs should be encouraged. The decentralization of decision-making to local levels that are closer to the beneficiaries, coupled with the necessary institutional and financial strengthening of the respective agencies, will enhance the efficiency of allocations overall. The Bank's role in this process will be to provide support to interested governments in implementing coherent strategies of decentralization, including through lending operations to support local programs.

(e) The Bank's standard terms and conditions may not be appropriate for all social projects. Accordingly, the Bank should explore the possibility of adjusting terms and grace periods of social sector loans to take account of the distinct features of these projects. The financial implications for the Bank of such adjustments should also be considered.

2.13 The nature of poverty and social equity calls for a wide range of activities closely linked to social reform and poverty reduction. They include initiatives in education, health, sanitation, nutrition and housing solutions as well as activities reaching beyond the traditionally defined social sectors, in the fields of urban and rural development, job creation, particularly through the microenterprise and small business sectors, environment and the modernization of the State, to the extent that these address issues of social equity and poverty reduction.

2.14 Special attention will be paid to the needs of low-income groups through programs and projects in the following areas: preschool and basic (primary and secondary) education; primary health care, mother and child health, and nutrition; slum upgrading; and actions to boost the production capacity of small farmers and microenterprises.

2.15 In monitoring implementation of the high priority given to poverty reduction in its lending program, the Bank will through its programming process identify as poverty-targeted investments, those operations which meet either one of the two following criteria: first, the project or program is geographically targeted to poor beneficiaries or, second, it is determined that a significant majority of the beneficiaries of a project or program, according to conditions prevailing in each country, are poor. All investment loans presented to the Board will state whether the project or program meets at least one of these two criteria, and how this is achieved. Management will monitor and report annually to the Board of Executive Directors on the proportion of lending which meets one or both of these criteria, and will propose to the Board any adjustments necessary to ensure that the Bank is adequately addressing its objective of poverty reduction. Finally, the Bank will develop programs with agencies in borrowing countries to improve the database on poverty, and will use improved data to

enhance, through country programming as well as project design, the poverty focus of its operations.

2.16 The Bank will support the region in three closely linked areas: (i) the needs of families, women, and young people; (ii) health and nutrition; and (iii) human capital formation.

The family, women, 1/ and youth

2.17 Poverty is a multifaceted phenomenon, which manifests itself at the family and individual level as a broad range of deficiencies in income and access to basic services (health, education, housing, social security, justice) and meager opportunities for employment and for personal and social development. These deficiencies have a dramatic negative effect on the living conditions of families and their overall quality of life.

2.18 In pursuance of its poverty-reduction objective, the Bank will promote projects that benefit the most vulnerable segments of the population, particularly women, adolescents, and children. These efforts will make a positive contribution to achieving other Bank objectives, e.g. the objectives of modernization of production and conservation of the environment.

2.19 Continuing with the work it began during the Seventh Replenishment, the Bank will assist borrowing member countries to strengthen the contribution of women to the development process and enhance the benefits accruing to women under Bank-financed programs and projects.

2.20 Actions targeted towards women yield substantial social returns, in addition to the economic benefits accruing to individual participants. Hence, the need to actively support women in overall family development, in their contributions to local community organizations, in generating income for the family group, and in taking into account women's specific health needs. Access to basic services and greater involvement in training programs will not only help women realize their potential but will also improve their productivity and access to the job market.

1/ The Bank took meaningful action in this connection during the Seventh Replenishment period, as may be gathered from the reports prepared in accordance with the operating policy on women in development (GP-114-3). That policy calls for the submission, every two years, of an evaluation of the Bank's action plan on women in development. The most recent of those reports outlines accomplishments under the three major initiatives — programming, project design and analysis, and institutional strengthening.

2.21 The Bank will monitor this area closely to ensure that the particular needs of women are taken into account in program and project design. Particularly important is the need to provide stronger support services and to make such services available at convenient times to fit women's work schedules, now that women are shouldering more and more responsibilities outside the home.

2.22 For a population to rise out of poverty, there must be opportunities for its young people. A vast number of children and adolescents in the region are not part of the education system or the job market. This is at once a serious social problem and a waste of a nation's greatest asset — its young people. If poverty is to be conquered for future generations, action must be taken now to satisfy the nutritional, health care, and educational needs of young people, so that they may share fully in the economic development and social and cultural advancement of their societies. Efforts deployed to this end will at the same time bolster the human capital base of the region's countries, which is a *sine qua non* of sustained economic growth.

2.23 Specific components of the Bank's assistance to the family, women and youth, while they will vary by country, span a wide range of activities:

(i) Prenatal and mother and child care facilities offering comprehensive health, nutrition and family planning and support services.

(ii) Programs which improve access to capital and production inputs for low-income families.

(iii) Income- and employment-generating activities and adult education for women, since a positive correlation exists with the quality of life of children.

(iv) Programs that offer housing solutions.

Health and nutrition

2.24 Deficiencies in health and nutrition continue to be a serious obstacle to efforts to build more modern economies and societies in Latin America and the Caribbean. Only a healthy, well-fed populace will be able to rise to the new challenges posed by economic and social development. Good health requires good nutrition, and a proper diet has direct and positive effects on intellectual capacity as well. The Bank's agenda for the coming years will afford due priority to working with countries to set up more efficient health-care delivery and nutrition services.

2.25 In the health sector, emphasis will be placed on preventive measures and on primary health care. Priority will be given to combating infectious and contagious diseases, as well as to

reducing infant and child mortality. Within this context and working with specialized agencies, major objectives of the Bank will be to assist in bringing about full coverage in inoculation, to provide assistance for mass vaccination campaigns for infants and school-age children, and to support implementation of environmental health projects, particularly in the water supply and sanitation subsectors. Likewise, the Bank will continue to support programs geared to improving the provision of services in the health sector, and the reform and modernization of the sector, including hospitals.

Formation of human capital

2.26 Improving education is particularly important for the consolidation of economic and social development. Investment in education has a direct impact on labor productivity, and therefore on employment opportunities, and is a necessary complement to investment in physical capital. The transmission and assimilation of scientific knowledge and new technologies requires a well-educated populace. From a political viewpoint, democracy demands an educated and informed electorate. Education will also help reduce inequalities in income distribution and facilitate social mobility, and is especially important for women, given its benefits in improving family welfare and the status of women. The Bank will assist programs in the following areas for support:

(i) Preschool, primary, and secondary education, with associated health and nutrition services where practicable.

(ii) Skills training, technical, vocational, higher education and its reform and modernization, to produce a workforce that can adapt to the needs of a new century.

Indigenous groups

2.27 Indigenous groups, who comprise a distinctive and significant segment of the population of the region, are endowed with a rich cultural and linguistic heritage and have developed social and economic practices that are well suited to the fragile ecosystems they inhabit. Indigenous groups typically belong to the poorest economic strata. Accordingly, project design and execution mechanisms should seek to strengthen the capacity of indigenous groups to undertake and implement development projects. In recognition of the important role of indigenous groups as both contributors to and beneficiaries of future development efforts in the region, the Bank has played a catalytic role in the recent creation of the Fund for the Development of the Indigenous Peoples of Latin America and the Caribbean. This initiative will be instrumental in defining Bank poverty alleviation strategies and action in support of indigenous development. The Bank will step up its efforts to obtain additional financing for programs benefiting indigenous groups in order to adequately address their needs.

Indicative targets

2.28 The Bank made a significant contribution to the funding of social sector projects and of projects geared to reduction of poverty in the region between 1979 and 1992. The Bank has been particularly important in its support for the poorest countries of the region. The Bank's strong contribution reflects its historic emphasis and recognized leadership in social projects. Bank lending in the social area has increased steadily in the last decade, and will account for approximately 25 percent of total lending during the Seventh Replenishment.

2.29 For the Eighth Replenishment, the Bank intends to achieve a further increase in lending addressing social needs, equity, and poverty reduction. The Bank's objective during the Eighth Replenishment is to have operations in the areas of activity referred to in paragraph 2.13 account for 40 percent of the total volume and 50 percent of the total number of Bank operations; this increase will be achieved in a gradual manner bearing in mind other considerations, especially the quality of the projects.

B. Modernization and integration

2.30 In order for the countries of the region to be internationally competitive and address social needs, it is essential that they modernize their production structures and their public sectors; they must also have appropriate financial and legal institutions. Their participation in world markets is an important ingredient in this modernization process.

2.31 Economic integration in subregional and regional markets is one way to achieve the ultimate objective of a multilateral opening up vis-à-vis the rest of the world, on a nondiscriminatory basis. Trade and economic integration agreements provide a foundation for domestic market expansion and an incentive for domestic firms to produce goods and services of better quality, in greater quantity, and at a lower cost. Moreover, integration agreements help to consolidate the important structural reforms already undertaken.

2.32 Greater integration has been a rather elusive goal of the region. While the schemes of the last thirty years were inwardly integrationist, they were outwardly protectionist. Today's efforts are different. They are being built around economic reform and trade liberalization with the goal of generating efficient regional trade as a means of improving the region's ability to compete in international markets. In large measure this results from the realization that the potential of export-led growth can only be achieved with access to the markets of countries outside Latin America and the Caribbean. As experience in other parts of the world demonstrates, the widening of markets through regional integration can make firms more competitive by taking advantage of economies of scale, buying inputs from the cheapest regional source

and by having access to a greater range of production factors. In addition, greater integration at the level of entrepreneurs can also make an important contribution to the modernization of the private sector's institutional structures, thereby strengthening these entrepreneurs' ability to compete.

2.33 However, it is a complex task to create the conditions for development of the private sector and to foster the opening up of the economy at the same time. The pressures that a more competitive market exerts on the productive sectors are transmitted by different economic groups as pressures upon the public sector. Democratic governments have to reconcile these pressures, and at the same time address the demands of a society that insists upon greater efficiency from the public institutions, greater accountability and transparency in government actions, and attention to the most pressing needs of the poor. These goals require the institutionalization of more flexible, competent, and reliable systems of governance based on clear and equitably enforced rules, and on respect for human and civil rights.

2.34 **Modernization of production structures.** The ability of countries to compete internationally not only depends on exploiting the comparative advantages associated with lower factor costs and improved market access, but also on increasing the productivity of investment and having dynamic and flexible organizations in agriculture, manufacturing, and services. Competition in national and regional markets helps to create the adaptability needed to compete internationally and fosters the development of dynamic and flexible organizations that are able to respond quickly to varying consumer requirements and changing demand conditions.

2.35 In this regard the Bank can use technical-assistance and loan resources in support of national and regional efforts for:

(a) Promoting domestic and foreign private investment. As countries move to rely more on the private sector as the engine for growth, they must create an environment that is conducive to investment, both domestic and foreign. This means that governments will have to pursue appropriate macroeconomic policies and achieve social and political stability while addressing issues such as property rights, financial sector reform, pricing, privatization, taxation, labor legislation, deregulation, treatment of foreign capital and the development of a more skilled labor force. Foreign direct investment, from both inside and outside the region, can also carry important side benefits for modernization in the form of better business practices, better knowledge of foreign markets, development of a skilled labor force, and transfer of technology. Bank efforts in this area will be concentrated on programs aimed at financial and public sector reform, investment sector loans (supporting deregulation and other steps to

encourage private investment), and provision of technical cooperation. Finally, the Bank should also seek to facilitate stronger ties between the region's private sector and that of its nonborrowing member countries, particularly in the investment sphere.

(b) Institutional strengthening and development of the infrastructure necessary for skills training and for technology generation and dissemination. An increasingly critical factor in economic progress is technological change. Meeting the challenge of today's international marketplace requires that countries incorporate modern technology, which implies building up the necessary human capital and technological infrastructure. As successful experience has shown, the foundation for effective generation and diffusion of new technology is a sound system of primary and secondary education, ensuring a capable and flexible workforce. Provision of more and better technical training, tied to the workplace, is also critical. In addition, modernization, strengthening, and equitable public funding of higher education systems can help provide the highly skilled human capital and the research infrastructure needed to adapt, absorb, and disseminate constantly changing technologies. Programs aimed at the technological upgrading of small and medium-sized enterprises can be particularly beneficial, as experience in other regions demonstrates. Finally, development of links among institutions within the region, and the linking of the region's institutions to the international technological network, can contribute to competitiveness in the region. In all these areas, close cooperation between public and private sectors in the region is essential. The Bank will support borrowing member initiatives in the above areas to advance technological development in the region.

(c) Ensuring a friendly environment for small and medium-sized firms. An important element in the modernization and social integration process is the creation of an environment in which small and medium-sized business can flourish. Experience in other parts of the world has demonstrated that this sector is well suited to channeling entrepreneurial creativity, effective at putting new technologies to use, and often the most dynamic source of new employment opportunities. The aim is twofold: to create the conditions for existing businesses to flourish and grow, fostering a dynamic small and medium-sized business sector; and to extend these conditions to ensure that microenterprises also have scope to develop, so that economic activity in the informal sectors can be gradually assimilated. Key to business-base expansion will be a modern financial sector that supports entrepreneurial creativity by providing small and medium-sized businesses access to appropriate financing.

(d) Financial sector reform and modernization. While foreign investment and borrowing will play a significant role in private sector growth and development, these flows are neither sufficient nor are they always stable or predictable. Economic growth, therefore, requires the efficient mobilization of domestic financial resources. Bank objectives will be to foster the emergence of new and varied sources of longer-term savings in the domestic markets; develop the necessary instruments and infrastructure for mobilizing domestic savings; ensure access by all to financial services, especially micro, small, and medium-sized enterprises; promote maximum efficiency in order to reduce the spread between deposit and lending rates of interest, through appropriate macroeconomic policy and the promotion of competition; and assure the adequacy of supervisory and regulatory systems.

(e) Programs to provide necessary infrastructure in such areas as energy and transportation. An internationally competitive productive sector requires a secure supply of competitively priced energy and other inputs. Equally important is access to efficient and reliable transportation and communications systems that facilitate national, regional, and international trade. Since much of this infrastructure suffered from the fiscal crisis of the last decade, substantial investments are required to expand, modernize, and maintain facilities and provide for regionally integrated systems. In many countries today, the State is transferring to the private sector major responsibility for providing these services. Where needed, the Bank will continue to seek innovative means within existing Bank policy to ensure that long-term financing is available for private investment in infrastructure.

(f) Strengthening and modernizing the agricultural sector. Agriculture in the region has two distinct segments: one that is linked to export and another that is oriented to the production of basic foodstuffs, primarily for the internal market. The latter is now in the midst of an adjustment process that seeks to reverse the serious setbacks it suffered in recent years, as reflected in low production levels, low competitiveness and, overall, declining rural living standards. Thus, the basic foodstuffs segment, which is closely related to low-income groups, will have to modernize in order to cut costs and improve competitiveness. Export-oriented agriculture will have to adjust to the new realities emerging from the GATT's Uruguay Round. Efforts must be directed at enhancing competitiveness at regional and international levels and substituting for crops with declining commercial potential. In this regard, particular attention should be given to programs that benefit productive capacity and marketing of small producers. It is therefore of fundamental importance that the efforts of the Bank and its member countries be geared towards supporting programs that

enhance access to new technologies through applied research and extension programs, expanded access to credit (particularly for small producers), and increased efficiency at both the production and marketing stages. As part of this strategy, support will need to be given for: removal of price distortions; access to and security of land tenure; training and extension activities; institutional strengthening and development of the infrastructure necessary for the generation and dissemination of agricultural technology; product standardization and grading efforts; and investment in irrigation, rural transportation, communications, and storage and marketing infrastructure.

2.36 **Modernization/reform of the public sector.** While the private sector is becoming the main engine of growth in the region, the long-term success of this model requires an efficient public sector. It is therefore necessary to continue building a more modern and effective State which is accountable and conducts its activities in a transparent manner. Increasingly countries are concentrating the role of the State in the economy on:

(a) Maintaining macroeconomic stability with social equity;

(b) Providing social services efficiently and creating and maintaining financially sound social security systems and social safety nets;

(c) Developing the necessary infrastructure and the appropriate legal and regulatory framework for development of the productive sectors; and

(d) Providing an appropriate environment for development of the financial sector, including the regulatory apparatus.

It is also recognized that democracy and respect for human rights have helped create appropriate conditions for development.

2.37 The Bank can help governments that request assistance in carrying out these tasks by supporting their efforts to:

(a) Achieve and maintain macroeconomic stability. Given its fundamental importance, macro stability will continue to be a major part of the country dialogue. While the focus will be on consolidating and maintaining macroeconomic stability in countries that have already undertaken adjustment programs, the Bank will support other countries' adjustment processes with sector lending.

(b) Establish social sector policies and programs. In order to tackle the social problems they face today, the countries of the region will have to meet the challenge of improving the

mechanisms and effectiveness of social programs, including the reform of social security systems, in a context of severe budget constraints.

(c) Reform tax and budgetary systems. Improving tax systems and increasing tax revenues is critical to the development of an effective public sector capable of addressing the needs of modern societies, particularly in the social sectors. The tax system needs to be strengthened and made more equitable by broadening the tax base and improving tax administration, including compliance. Expenditure systems need to be aimed at better income distribution and the rationalization of public expenditures, including military expenditures.

(d) Modernize the public sector and move forward with the process of privatization. To make the region's economies more efficient, it is necessary to restructure the public sector and redefine the State's role and involvement in the various sectors of the economy. The countries of the region should continue to move ahead with public sector restructuring and privatization. The Bank will continue to lend support to these processes through programs designed to facilitate the transfer of employees to the private sector. Other specific areas of assistance could include strengthening the capability to enforce existing laws, regulations and contracts, and modernizing and streamlining government procurement procedures.

(e) Strengthen public institutions. Effective and efficient government will require institutional strengthening of the executive, legislative, and judicial branches, and other public entities. The success of this effort will hinge on the availability of properly trained and appropriately motivated managerial and technical staff at all levels of institutions. The upgrading of budgetary and regulatory controls is likewise a key element in this process. Although considerable progress towards institutional reform has already been made by the countries of the region, it is a complex, long-term process that frequently involves the decentralization of functions. The Bank should support decentralization efforts, when appropriate, channeling funding and technical assistance to programs designed to: (i) strengthen local capability for planning, formulation, implementation, and evaluation of development projects; and (ii) support central government efforts to decentralize functions to the local level and to strengthen their policy-setting role in individual sectors.

(f) Strengthen the capacity to prepare and execute development programs and projects. A modern public sector must have the ability to turn plans and proposals into actual investments. Yet, the public sector's capability to develop and execute projects has been severely reduced by the region's financial

crisis. The Bank will therefore devote special attention to this important area, through loans and technical assistance aimed at enhancing the public sector's capacity to: (i) design, execute, monitor and evaluate public investment programs; (ii) strengthen the legal framework for the efficient approval and execution of investment programs; and (iii) develop and implement training programs for government employees in project design and execution.

(g) Establish appropriate regulatory and supervision functions. In order to ensure the appropriate functioning of markets, new regulatory frameworks are needed, especially where monopolies are shifted from the public sector to the private sector. In some countries, market conditions require developing appropriate policies and mechanisms to handle market imperfections. In other countries, there is a need to develop the regulatory framework required for international trade. Especially important areas for the development of appropriate regulations are finance, trade, public services, labor relations, and the environment.

(h) Promote strengthening and modernization of the judicial system. Like the social sectors, judicial systems have suffered under the limitations imposed by the scarce availability of resources in the wake of Latin America's fiscal crisis. In order to reinforce judicial systems, simultaneous action is called for on various fronts: court caseloads need to be lightened and procedures streamlined; more resources need to be provided for judicial administration; available resources need to be managed more efficiently; and methods need to be designed for assessment and follow-up. Bank support should be geared towards ensuring that the judicial system is independent and effective, that it guarantees the rights of citizens, and that it contributes to effective and rapid settlement of disputes.

(i) Support to national parliaments. The proper functioning of parliaments is an essential condition for consolidating democratic systems and ensuring the quality of laws. The Bank will lend its support to policies and programs aimed at modernizing and improving effectiveness of parliaments.

C. The environment

2.38 The past 10 years have seen a substantial rise in awareness of the scope and gravity of the environmental problems facing the region. Awareness that poverty contributes to aggravating many of the region's environmental problems, both in rural and urban areas, has also grown. Throughout the region, it is clear that reducing poverty levels and improving the environment will mutually reinforce each other.

2.39 The urban environment has changed dramatically in the last few decades in Latin America. Nearly 75 percent of the region's inhabitants now live in cities. Current projections show that in the last decade of the century the urban population will increase by approximately 100 million, exceeding 400 million by the year 2000. At the same time, urban areas have developed into industrial centers. This concentration of people and industrial activity has had serious repercussions in terms of the environment and public health. The enormous problems involved in accommodating such growth are well known, and public services in the region's cities have become overwhelmed, as for instance in potable water, collection and treatment of industrial and domestic wastewater, air pollution control, the maintenance of parks and other green spaces, and the collection, recycling and disposal of solid waste, including toxic waste. Quality of life in Latin American cities is also being impaired by the shortage of housing, lack of public services, and the overexploitation of natural resources both within the cities and in the surrounding areas.

2.40 The region's rural areas also face environmental challenges such as preventing or containing soil erosion caused by water and wind, salinization, and other forms of land degradation; ensuring that land and water are used in a sustainable manner; containing urban sprawl towards fertile farmland; preventing pollution by agricultural, mining, and other industrial activities; and preventing desertification, deforestation, and the consequent loss of biological diversity. It is also crucial to improve living standards and open up sustainable economic opportunities for the rural population, in order to contain migration to the cities and to the remaining forest areas.

2.41 Ideally, environmental protection in the countries of the region would reflect a global approach that highlights the universal benefits of proper environmental management to all those who inhabit our planet. On the one hand, the Rio Declaration of 1992 recognizes that, "in view of the different contributions to global environmental degradation, States have common but differentiated responsibilities. The developed countries acknowledge the responsibility that they bear in the international pursuit of sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command." On the other hand, account must be taken of the significant economic costs developing countries must bear in shifting rapidly towards the goal of sustainable development. Therefore, solutions to environmental problems, especially global problems, must take imaginative approaches and must envision the availability of financing on concessional terms for environmental projects and components with distinctly global benefits including, for example, projects related to the implementation of the Biodiversity and Climate Change Conventions.

2.42 In addition to assisting borrowing members in direct environmental programs, the Bank will continue its firm commitment to work with borrowing members to ensure that all the operations it finances are environmentally sustainable. Efforts will continue to include, where warranted, components of direct benefit to the environment in the projects the IDB finances. In all projects, the approach supported will be as economically efficient as possible, while also seeking to minimize negative environmental impacts.

2.43 During the course of the Eighth Replenishment, the Bank will ensure that its environmental guidelines are extended to cover possible environmental effects in other activities, such as agriculture, transportation, watershed management, extractive activities, and mining. The Bank will continue to update its internal guidelines on an ongoing basis and will strengthen its programs of staff training to ensure effective application of environmental standards. The Bank will develop and update environment-related guidelines in a context of consultation and dialogue with relevant segments of the public.

2.44 The Bank has been strengthening its ability to assist countries in managing the more significant environmental problems facing the region. Through the programming process, the Bank will maintain a dialogue regarding overall environmental management issues, needs and solutions. In this context, the Bank will support borrowing member countries in the following areas:

(a) Strengthening the environmental legal and regulatory framework, including Environmental Action Plans when requested by the borrowers. The Bank will continue to work with member countries to strengthen environmental legislation, establish regulations and concrete systems of incentives and sanctions aimed at promoting environmental conservation, and improve the management of institutions responsible for the environment and natural resources, including staff training, establishment of environmental monitoring systems and databases, and identification of environmental projects. Efforts to protect the environment should not focus exclusively on the regulatory framework but must also take into account long-term economic considerations and the search for cost-effective solutions. The use of market-driven instruments designed to offer effective incentives to conserve the environment and to apportion costs according to criteria of equity and economic efficiency provides the greatest assurances that a high level of compliance with environmental policies will be attained.

(b) Strengthening environmental institutions. Everywhere in the region it will be necessary to overcome present inadequacies in legislation dealing with, and weaknesses in institutions responsible for, natural resources and the environment, if the trend towards environmental degradation is to be reversed. A significant effort must therefore be made to establish

efficient institutional mechanisms to address environmental matters, which entail the coordination of the decision-making process and the promotion of participation processes through local public and private organizations. Environmental management at the local level can play a fundamental role in allowing the population to take part in creating a better environment.

(c) Improving the environmental quality of operations financed by the Bank. The environmental assessment process in place at the IDB identifies the environmental effects and consequences of all operations proposed for Bank financing. Bank-financed operations will be supported by high-quality environmental assessments, sponsored by the national authorities, that reflect, *inter alia*, consideration of project alternatives, the results of timely consultations with the affected populations, in accordance with current practices, and, in the area of influence, the economic costs and benefits of the projects' environmental impact and/or of the associated protection measures. In the case of projects whose effects can easily be identified and monitored, project design will include measures to alleviate and control environmental damage. In the case of sector loans or other types of operations such as multisector credit loans, multiple works programs, and "time slice" operations, whose repercussions are not easily foreseen, the attention will be focused on the borrowing country's institutional capacity to respond to and manage the possible environmental consequences of those operations. The Bank will encourage its borrowing member countries to take into account the global environmental effects of Bank-financed operations. Also, it will continue to emphasize the provision of support and advisory assistance to the borrowing countries in connection with their efforts to ensure the highest possible environmental quality of their investments in development. The Bank will continue to promote this key aspect through its lending and technical-cooperation operations and training programs.

(d) Promoting the conservation and efficient use of energy in the Bank's projects. The Bank will continue to assist borrowing member countries in adopting energy development strategies that are environmentally sustainable, by:

(i) Elaborating integrated least-cost energy development plans which, taking into account the economic reality of each country, include practicable and available demand management as well as supply side measures. The Bank's lending to a borrower should be based on such plans when they exist. When a country has no updated plan for the energy sector, the Bank will support the elaboration or updating of such a plan. These plans should include an analysis of possible measures to foster efficient energy

use by end users and the use of nonconventional renewable energy options. These plans should, to the extent practicable, reflect the environmental costs and benefits in the area of influence of proposals for energy development.

(ii) Promoting the efficient use of energy in the energy, industry and transport sectors, and, where practicable and appropriate, in the areas of urban renewal, rural development and microenterprise, through the inclusion in projects financed by the Bank of appropriate measures, taking into account the economic reality of each borrowing country.

(iii) Developing and carrying out regional energy integration programs.

(e) Improving the urban environment. The Bank will step up its efforts to upgrade the urban environment and improve living conditions for city dwellers. Operations in subsectors such as sanitation, transport, housing, and urban development will be coordinated with environmental strategies in the urban and regional spheres. Special attention will be paid to controlling pollution by industrial activities, vehicle emissions, and solid wastes, and to strengthening the pertinent regulatory authorities.

(f) Management of natural resources. Despite a number of promising environmental conservation and management programs upon which countries have embarked in the region, the quality of water and soil resources continues to deteriorate, deforestation and desertification remain of concern, and losses in biological diversity are still being reported. The programs instituted to date are making promising strides on a number of fronts: soil conservation; watershed management; reforestation to rehabilitate land; natural forest management; conservation of ecosystems and biodiversity by establishing protected areas and ensuring their sound management; conservation and management of coastal and island resources, including ecotourism; and fisheries conservation and management. The remedial measures being deployed will be valuable aids in the short run, but in the longer term, the solution to natural resource management problems will lie in an integrated approach to planning, conservation, and management. This will call for a convergence of sound policies, strong institutions, and planning resources. The central issues and target areas from the standpoint of Bank support are as follows:

(i) The definition and adoption of sustainable agricultural practices that are consistent with the realities of the region, and take particularly into account the needs of low-income farmers, with due regard to land tenure

issues. Special emphasis will be placed on soil conservation in farmlands and critical watersheds.

(ii) Assistance to borrowing member countries to develop viable fresh water sources and systems through a variety of initiatives, such as: developing and implementing guidelines; devising and employing integrated approaches that will converge over time upon least-cost solutions for investments in water resources development; identifying and preparing projects and project components, including water conservation programs; and encouraging better use of water resources and advances in water technology. The Bank will develop and implement guidelines on water resources management, which support an integrated approach to watershed management based on consideration of all sources and uses of water in a particular river basin.

(iii) **Sustainable management of forestry resources.** The Bank will continue to support the conservation, reforestation and rehabilitation of forests, as well as agroforestry. To assist borrowing countries in performing these activities, it will also provide assistance for strengthening pertinent institutions, training personnel and carrying out research. The IDB will finance activities that ensure the participation of local residents in the benefits of sustainable forest management. The sustainable and conservation-oriented management of forestry resources cannot take place without a firm commitment on the part of borrowing country governments. The Bank will actively seek that commitment and will support forestry operations, judged on their individual merits, only when it exists. The Bank will also support operations to foster such a commitment. In primary tropical moist forests, the Bank may support operations to enhance the ability of responsible agencies to manage forestry resources in a sustainable manner. However, the Bank does not finance commercial logging in these forests, nor the purchase of equipment for such purposes.

(iv) An ongoing search for opportunities to aid in the conservation of biological diversity, with local community involvement.

(v) Support for the conservation and management of the region's maritime resources.

(vi) Continued attention to the environmental consequences of extractive activities, particularly pollution control and the restoration of degraded areas.

(g) Resettlement. The Bank will continue to apply the strategies and procedures devised for projects that require communities to be relocated. This will include consulting with the affected population at an early stage as well as during project execution, incorporating resettlement issues in environmental impact assessments, and drawing up detailed resettlement plans as an integral part of the project and carrying them through. When a project has a resettlement component, the resettlement plan will be prepared at the earliest stages of project design and available at the time the project is presented to the Board. This resettlement plan is provided in environmental summaries, and environmental impact assessments. The Bank also will keep a list of ongoing projects that call for resettlement of communities, and will continue to update its procedures and guidelines in this area.

(h) Information. Greater transparency in the Bank's operations, in the form of readier access to environmental information, will encourage community interest and participation in the environmental aspects of the Bank's projects and programs, with expected benefits in terms of the environmental quality of such projects and community support. The Bank will continue to work with its borrowing member countries to this end via the following actions:

(i) It will make available at Headquarters and in all Country Offices factual and technical information on the environmental impact of all projects throughout the preparation and implementation period. Such information will consist of environmental briefs and summaries prepared by Bank staff.

(ii) The Bank expects borrowers to conduct consultation processes, for all projects which may have a significant negative impact, that are designed to elicit informed opinions from affected communities and other local parties having a legitimate direct interest in an operation, as part of the environmental assessment of environmentally significant operations. The Bank will strengthen its existing guidelines in this area.

(iii) Before the Bank proceeds to its "Analysis Mission" for an operation requiring an environmental impact assessment, the environmental impact assessment would be made available in the borrowing country at some public place accessible to affected groups and local NGOs. Once the EIA is released locally and officially submitted to the Bank, the EIA would be directly available to the public at Headquarters, in the Country Offices, and in the Special Office in Europe. If the Borrower objects to the broader release of the EIA outside of the borrowing country, the matter will be

taken to the Board of Executive Directors for a decision on how to proceed.

(i) Environmental education and training. Environmental education and efforts to build an awareness of environmental issues and impacts will help preserve the environment and encourage communities to take a more active interest in environmental concerns. Accordingly, in the projects it finances, the Bank will foster such environmental awareness in local public and private groups. The education programs it finances will continue to build in an environmental studies and education component wherever necessary or advisable. Among the wide range of initiatives to be tried and promoted are simple, everyday conservation practices, environmental education for women, and access to information on the local, regional, and global consequences that certain activities may be expected to have on the environment. Additionally, the Bank will continue to stress training for its staff across sectors, to disseminate information and broaden the responsibility of its staff for the environmental dimension of its operations.

3. BANK MODALITIES AND INSTRUMENTS

2.45 In order to meet the objectives and priorities outlined above, the Bank will not only continue using its traditional tools and modalities but will endeavor to find new ways to accelerate the ongoing process of restructuring and renewal in the region. The Bank will continue to be an institution that finances projects in infrastructure, the productive area, and social sectors through project loans, global credits, microenterprise financing, small projects and technical assistance. At the same time, it will work with those countries still undergoing policy changes with policy-based sector loans. In particular, the Bank will use sector loans to assist reforms in the social sectors, where the problems are not always related to funding but often have to do with delivery systems.

2.46 To support this overall effort, the Bank has a unique asset in its Country Offices, which will be strengthened in order to increase their contribution in all areas of Bank activity, especially program formulation and portfolio management.

A. Programming as instrument

2.47 The Bank will respond to the need to strengthen its overall programming process through: (1) the development of its own strategic planning function; and (2) the enhancement of the country programming exercise itself. The utmost will be done to streamline analytical efforts with other agencies to reduce redundancies and duplications.

2.48 During the Eighth Replenishment, the country programming process will continue to be grounded in an intense and continuous dialogue with borrowing members, with the objective of identifying a mutually agreed-upon program of Bank financing and technical cooperation. Each year, for each borrowing member country, Management will present to the Board of Executive Directors a new or revised country paper (CP), providing a basis for Board-Management discussion of the status of the country's portfolio and of planned areas for Bank Group cooperation.

2.49 Each new CP will provide an assessment of the country's economic policies and performance in relation to the objectives of the Eighth Replenishment. In addition to the above, the CP will assess the impact of the external environment, cover expected broad levels of support for a given scenario, and review the current status of implementation of approved projects, including difficulties experienced in implementation, as reported in annual country portfolio assessments.

2.50 A concise and issue-oriented paper on the medium-term strategic planning framework, derived from the country programming process, covering a three- to four-year period will be provided each year to the Board of Executive Directors for consideration. This document will include a review of the Bank's proposed plans and activities in keeping with the priorities of the Eighth Replenishment agreement. Management will also prepare an annual Operational Plan which would set forth the Bank's lending program along with a notional allocation of all program resources (lending and technical cooperation) by sector and by country group. This document will provide the basis for the Administrative Budget to ensure that resources are available to meet the stated program goals. These documents will enable the Board and Management to undertake an annual review of the Bank's objectives — its policies, priorities and programs — and make it possible for the Bank to adjust to relevant changes in policies and to the results of program and project implementation. This annual review will be complemented by portfolio management reports provided to the Board of Executive Directors.

B. Policy-based lending

2.51 Policy-based lending (PBL) has allowed the Bank to become a major player in the restructuring of the region's economies through PBL directed towards supporting macroeconomic adjustment programs. The goal has been to achieve sustainable growth via policy reforms in the productive sectors, in fiscal and monetary policy and in financial markets. Practically all PBL activities are comprised of fungible resources for balance of payments support, and for debt reduction agreements, although multisector credit and investment programs have been combined in some hybrid loans.

2.52 Policy lending during the Eighth Replenishment will continue to support economic adjustment programs for those countries still in need of such financing, but greater emphasis will be on reforms in the public sector (i.e., in tax, budget and expenditure policies, institutional strengthening and support for sub-national governments), and promoting reforms in sectors neglected in the general adjustment process, in particular the rehabilitation and modernization of social sector infrastructure and delivery systems. The Bank will continue to use investment sector loans as part of its support for the development and growth of the private sector.

2.53 The policy-based lending modalities now in use are adequate for dealing with the special problems of the social sectors. However, some adjustments will be necessary to reflect the different nature and generally longer time horizon needed for effective social sector policy reform, compared to that for economic adjustment programs.

2.54 The financing of social sector reforms requires a full range of policy-based loans. PBL resources are needed when costs are not directly tied to investments, e.g., health care finance and delivery reform, institutional strengthening, and the development and implementation of cost recovery schemes. However, since PBL resources would be linked to the country's providing domestic resources for certain programs, loan disbursements would be tranched at the rate that costs are incurred. The effect would likely be to extend a PBL operation over a three- or four-year period. Costs tied directly to outlays associated with physical works would be financed through regular investment loans. The profile of investment costs and other financial outlays in the reform program will dictate the structure and design of the Bank's PBL financing package.

2.55 The type of PBL expected during the Eighth Replenishment suggests that PBL operations, in relative terms, will be smaller than in the Seventh Replenishment which had a significant number of large loans to support macroeconomic adjustment programs and debt reduction. Policy-based lending will therefore not exceed 15 percent of the cumulative lending program under the Eighth Replenishment.

C. Technical cooperation

2.56 Under its Charter, the Bank is charged with providing technical assistance as a primary function for implementing its purpose. Technical cooperation has always been important for the success of members' development efforts and the Bank's lending program overall. Technical cooperation has become crucial for the effective design and implementation of reform programs and new development strategies and will play an important role for issues of a regional nature such as the environment and integration. In addition, technical cooperation is a vital and growing part of Bank

efforts to support policy reform, institutional strengthening and capacity building, especially in such sectors as human resources and environment, and regional trade and integration initiatives. Given the impact these efforts can have on increasing a country's capacity to absorb Bank lending to achieve long-term development objectives, technical cooperation and its proper sequencing is an integral part of the programming process. Technical cooperation is essential to identify, prepare and implement projects and programs. Especially important for the Bank's operations is the Project Preparation Facility.

2.57 The regional technical-cooperation program has been an important instrument for the Bank to take a proactive and supportive role in the development of new and innovative approaches to the changing priorities of the region. Through this program, the Bank has made important contributions to the process of institutional development by supporting training and assistance in areas such as agricultural research, project evaluation, macroeconomic and sector policy analysis, energy planning, urban development, income distribution, technology, management, and environmental impact assessment. During the Eighth Replenishment, the Bank will review the effectiveness and the analytical methods used in technical-cooperation operations, and Management will periodically present for Board consideration a programmatic framework for technical cooperation outlining clear priorities to meet growing demand.

2.58 Given the strengthening of the integration process in the region and the increasing number of joint initiatives by the governments of member countries, the demand for regional technical cooperation is expected to continue growing in the future. In order to respond to this growing need, the Bank must diversify the current sources of financing for regional operations, beyond nonreimbursable technical cooperation, by developing mechanisms which will allow all borrowing member countries to access reimbursable technical-cooperation and loan funds for high-priority regional initiatives.

2.59 During the Eighth Replenishment, regional technical-cooperation resources will be directed towards activities which can best or only be supported through a regional approach, such as key multicountry initiatives and specialized training where economies of scale and sharing of national experiences are vital. Sector priorities will be those of the replenishment.

2.60 While funding reimbursable technical-cooperation operations will not be a problem, sufficient funding for nonreimbursable technical cooperation is problematic. Nonreimbursable technical-cooperation operations financed from FSO income in convertible currencies is essential for institutional-strengthening efforts, capacity building and project preparation, especially in Group D countries, with priority given to countries in inverse relation to their per capita income. In addition, these resources could be used to finance technical cooperation which can best be carried out at the

regional level in support of the priorities of the Eighth Replenishment. These limited resources will be allocated through the country and regional programming processes according to the priorities of the IDB Eighth Replenishment agreement.

2.61 In the past the Bank has financed nonreimbursable technical-cooperation operations from bilateral funds and from FSO net income. However, bilateral funds are directed to countries and activities specified by the donor country, and FSO net income available has not been sufficient to meet the growing needs for technical-cooperation operations and for financing the Small Projects programs.

2.62 Resources for technical cooperation. During the 1990-1993 period, the Bank approved 1,051 nonreimbursable technical-cooperation operations (including short-term missions; operations under the Project Preparation Facility, CT/INTRA, and CT/FONDOS; regular operations; and operations in parallel to small projects), for a total of approximately US$362.8 million. Of that amount, 48.8 percent (US$176 million) was earmarked to fund 558 operations (53.1 percent of the number of operations approved during the period) for project preparation and institutional strengthening in the Group C and D countries; 16.8 percent (US$60.8 million) in support of similar efforts in the Group A and B countries; and 34.7 percent (US$126 million) for the Bank's regional cooperation and integration initiatives. It bears mentioning that technical-cooperation activities in the social sector accounted for 31 percent of the amount of total approvals.

2.63 Nonreimbursable technical cooperation from the Bank has been financed primarily from the net income of the FSO. However, as indicated earlier (paragraph 2.61), the levels of such resources have fallen significantly in recent years. Following a record US$140 million in 1991, approvals fell to US$65.4 million in 1992 and recovered somewhat in 1993 to US$100.6 million, thanks to a greater use of trust funds (CT/FONDOS) and local-currency resources.

2.64 It would, therefore, be desirable to have a mechanism that would (a) facilitate efforts to attract additional resources and consolidate the funding and programming of technical-cooperation operations, and (b) harmonize the utilization of the various sources of technical cooperation.

2.65 Such a mechanism could be a Technical Cooperation Fund (FONTEC). This fund would:

(a) Afford a strategic focus to the Bank's technical-cooperation activities within a multiyear framework.

(b) Provide a convenient and transparent mechanism through which interested donors might wish to funnel all or part of their technical-assistance resources to the region.

(c) Improve the Bank's internal procedures to achieve efficiency gains in the processing and administration of technical-cooperation operations.

2.66 FONTEC would play a valuable role in the context of the country programming process. Its operations would be programmed on the basis of priority areas and specific objectives and goals of the Eighth Replenishment lending program. The Board of Executive Directors would approve policies and procedures under which FONTEC would operate.

D. The private sector development program

Introduction

2.67 The economic and social development strategies being pursued today by the countries in the region are according a more prominent role to the private sector. In the economic reform processes now under way, public sector involvement in the production of goods and delivery of services is fading, leaving the State free to concentrate on shaping a stable macroeconomic and legal framework that will be conducive to private investment.

2.68 The private sector is being called upon to bring about the micro-economic changes needed to help business function more efficiently. Specifically, efforts to promote small and medium-sized commercial operations will expand the business base of the countries, and further their development strategies. A number of countries have found that such small and mid-sized businesses are creative outlets for entrepreneurs, and that they generate jobs more quickly than any other sector.

2.69 All of the efforts being deployed will be insufficient to achieve the objectives noted above unless medium- and long-term financing facilities are made available for the private sector.

2.70 The Bank will need to adjust and augment its activities to keep pace with the trend towards private-sector-led development strategies. Specifically, it should explore ways in which it may help the region's economies build closer and ever-stronger ties with each other and with the rest of the world, notably in the investment sphere and in the transfer and adoption of new technologies. In so doing, the Bank will assist its member countries as they seek to foster private sector involvement in the sectors specified by each, and offer financing to that end.

Existing facilities

2.71 In recent years, the Bank has lent support to its member countries in the region as they have set about building legal and economic frameworks that will be attractive to private investors. It will continue to assist with efforts to create a friendly climate for private investment and, generally, to contribute both directly and indirectly towards the development of the private sector, using the following programs and instruments which are already in place.

2.72 **Sector lending.** Policy-based sector loans are one means at the Bank's disposal to help the member countries pursue development approaches which give center stage to private enterprise. Through this program, the Bank offers technical and financial support to governments that are bringing in reforms to bolster the role of the private sector in the development process. Investment sector loans help identify obstacles to investment in a number of areas of a country's economic activity, and seek ways to remove them. With such support, the countries are better equipped to tackle the economic, legal, and bureaucratic barriers that are limiting business opportunities, stifling competition, and seriously distorting resource allocation. Loans in support of finance sector reform and capital market development should help build up the capabilities of economies to raise the vast amounts of financing needed to bring the private sector into the development process and allocate those resources efficiently, and to multiply possibilities of access to financial services.

2.73 **Public sector restructuring programs.** If the economic policy reforms now under way are to be successful, public sector institutions will need to be capable of administering the reform process and providing a modern, efficient regulatory framework. The Bank should continue to offer support to the countries in this area, which is essential for the nourishment of private economic activity.

2.74 **Financing for infrastructure and public services.** A country cannot advance without the proper infrastructure and public services. Economies in the region require such facilities to be more efficient and more competitive, and to draw the private sector fully into the development process. It is therefore essential that the Bank continue to lend support for infrastructure projects and projects to expand and upgrade public services.

2.75 **Financing for training and development programs.** Prospects for a heightened role for the private sector in development will hinge, in the medium to long term, on the training received by its human resources, the upgrading of management skills, and its ability to produce and adapt new technologies. Accordingly, working closely with the MIF, the Bank should support innovative ventures to improve education and training at every level.

2.76 **Global credit programs.** The Bank should continue to assist in the development of small and medium-sized companies through global credit loans, with special emphasis on the needs of microenterprises. In so doing, it should draw on the IIC's capacity and experience in the design and, where appropriate, the execution of global lines of credit. The IIC has added a new dimension to financing for private enterprise: equity investments in individual companies. The MIF, for its part, has increased the number of funding avenues and volume of financing available for such purposes through its Small Enterprise Development Facility and Small Enterprise Investment Fund.

2.77 **Technical cooperation and advisory services.** Technical assistance will become more and more important as countries seek to consolidate gains achieved in the early stages of their reform programs. The Bank should assist countries in the region through ongoing advisory support services in the areas of investment systems, restructuring of the public sector, privatization, finance system reform, and development of capital markets.

New facilities

2.78 As the private sector is given greater weight in development strategies in the region, demands for financing will arrive from new quarters, seeking support for initiatives such as the privatization of companies producing goods and delivering services, and activities hitherto reserved to the public sector, for which capital market financing is not available. To rise to these new demands, the Bank will need to help foster the development of capital markets and devise new financing facilities to supplement its existing support programs. Specifically, and maintaining its present global credit facility, the Bank should, with the consent of the member country government in each instance:

(i) Target a small percentage of resources for direct lending to the private sector, without government guarantees. The proceeds of such loans would be channeled primarily to finance activities traditionally undertaken by the public sector, such as infrastructure projects.

(ii) Help mobilize private medium- and long-term capital flows for the financing of development projects, through cofinancing operations, guarantee arrangements, and others.

2.79 **Direct lending to the private sector.** Even with heightened private sector investment, the region will still need to raise enormous amounts of funding, particularly to finance large infrastructure and public service projects with long lead times. The public sector in many of the region's nations plans to hand over, or has begun to hand over, responsibility for public utilities to the private sector, but such privatization programs will be compromised

if attention is not given to their long-term financing needs. The Eighth Replenishment is an ideal opportunity for the Bank to begin lending directly to the private sector without sovereign guarantees, in each instance with the concurrence of the government of the member country. Such financing will be limited to a percentage of the Bank's total lending portfolio, so as not to jeopardize its credit rating; at the outset, this support would be targeted exclusively towards the financing of investment in infrastructure and public utility projects providing services generally performed by the public sector.

2.80 IDB lending under this program should be part of country programming, and would be subject to the following terms and conditions:

(i) The Bank would enter gradually into lending for these purposes, and this lending would at no time exceed 5 percent of commitments corresponding to the Eighth Replenishment lending program. For any individual project, the Bank's share should not, as a rule, exceed 25 percent of total costs or US$75 million, whichever is less. Management and the Board of Executive Directors will ensure that all countries have access to this facility in line with the general distribution of resources.

(ii) Countries would need to have in place and maintain on the one hand a body of rules and regulations providing for a permanent, stable private investment system and, on the other, in the sector in which the project being proposed for financing would operate, an adequate regulatory system whose legal and financial provisions would not compromise the feasibility of the project.

(iii) For statistical purposes, the Bank's own resources would be imputed to the country or countries where the project is being financed.

(iv) The nongovernmental guarantees required to assure performance of the financial obligations of the loan would be determined in each case.

(v) The greater risk assumed by the Bank in providing financing not backed by a sovereign guarantee would be assessed and reflected in the loan charges, and in the possible impact on loan provisioning policy.

(vi) Additional criteria will be discussed by the Board of Executive Directors.

2.81 The Bank also should adjust its arrears policy, delinking this kind of operations from all other Bank-financed operations in the country so that governments could not be required to shoulder the obligations of delinquent private sector borrowers. After two

years of operation, this program would be evaluated to ascertain the progress being achieved and suggest to the Board of Governors improvements as needed, including the limits established in the previous paragraph. After four years, the Board of Governors will review the possible continuation of this program.

2.82 **Mobilization of additional funds.** As part of its cofinancing activities, the Bank will step up its efforts to mobilize additional resources, particularly from private sources, for priority development initiatives, and especially for infrastructure and public utility projects carried out by the private sector.

2.83 To attract investment funding and be more effective in mobilizing financing for high priority development projects from commercial banks, private investors, and the domestic and foreign capital markets generally, the Bank should focus more closely on the financial structuring of projects, and make greater use of various cofinancing and resource mobilization techniques.

Institutional considerations

2.84 The Bank, the IIC, and the MIF should design new mechanisms of coordination, and procedures, so as to ensure the use of the instruments at the disposal of each in order to achieve a satisfactory execution of the various programs and operations carried out in support of the private sector, preventing the duplication of functions and making the work of the IDB Group more effective.

E. Cofinancing

2.85 The Bank has always given a high priority to arranging cofinancing for its projects to complement its own resources. Cofinancing operations have increased considerably since 1990 as a result of cofinancing agreements with the World Bank for sector lending operations and with the Government of Japan as part of their Capital Recycling Program announced in June 1987, which provided "untied" resources through the OECF and Eximbank of Japan. These combined sources represent about 95 percent of total Bank cofinancing operations, with the Japanese funding accounting for over 90 percent of bilateral funds.

2.86 During the Eighth Replenishment the Bank will need to find additional concessional cofinancing funds to complement the Bank's available IFF and FSO resources, and will continue to seek concessional cofinancing for such high-priority areas as the environment and social programs. The Bank will thus mount an effort to diversify the sources of official cofinancing, and to strengthen the collaboration mechanisms with existing cofinanciers. The Bank will actively pursue the possibilities of additional concessional resources from bilateral institutions and nonborrowing

governments with whom it does not already have existing programs. The Bank will also adopt a more systematic and consistent approach in its relationship with official cofinanciers, periodically making direct contacts and regularly updating potential projects for cofinancing.

2.87 In addition to official resources, the Bank will attempt to raise substantial external financing from market sources to meet the needs of all borrowing member countries. In the latter case, the Bank's role should be that of a catalyst helping to develop well conceived projects, carefully customizing loan requests to the needs of particular markets (timing, pricing, maturity, choice of currency), and offering specific financing techniques to reduce direct country risks incurred by commercial lenders. The Bank will also encourage international competitive bidding procurement procedures whenever feasible, and will take the necessary steps to encourage full compatibility of parallel financing with Bank financing in each such project.

2.88 In order to effectively carry out this role the Bank will develop and present to the Board of Executive Directors for its consideration, in the context of an overall strategy, a menu of cofinancing instruments which may include parallel cofinancing with optional cross-default linkages and longer maturities, and guarantees.

F. Export promotion

2.89 While the Bank has always been concerned with strengthening countries' export sectors, the current changes in economic policy throughout the region, together with trade liberalization initiatives, have resulted in the need for a more focused approach to export promotion activities.

2.90 During the Eighth Replenishment, the Bank will help countries to develop strategies to strengthen export promotion efforts. This assistance will include support for policy reforms to develop market opportunities, strengthening infrastructure and technical-assistance packages for the improvement of services related to the export sector (e.g.: communication, market information systems, training, and educational programs). In addition, the Bank will work with borrowing member countries to develop a market-based export financing mechanism, tailored to the needs of individual member countries of the region to finance intra- and extra-regional trade.

G. Matrix

2.91 With respect to the percentage of foreign exchange financing of total costs, the following matrix will apply:

Country group	Maximum percentage
A	50
B	60
C	70
D	80

2.92 The percentages of foreign exchange financing of total costs indicated above are those that the Bank would apply regularly and consistently. At the borrower's request, the financing in foreign exchange could exceed these percentages if the cost of the goods and services that would have to be imported for a specific project exceeds the applicable level, provided that this does not mean a substantial reduction in the local contribution and provided that it is shown that no alternative source of financing exists on reasonable terms.

2.93 The levels of financing according to the various country groups will be supplemented with an additional 10-percentage-point increase for projects delineated in paragraph 2.15.

2.94 In the case of hybrid loans, with a fast-disbursing component as well as a long-term investment component, the matrix percentages referred to above will be applied to the investment component, while the fast-disbursing component will be financed in its entirety and in foreign exchange.

H. Information disclosure policy

2.95 The IDB is directly accountable to its member governments and indirectly accountable to their parliaments and citizens; disclosure of information and transparency of operations is an important element in ensuring this accountability. Moreover, there is a growing realization that the Bank's work can be strengthened by disclosure of information to the public which would ensure interest and participation by affected populations and local NGOs, whose contributions may help ensure that the Bank's projects are better designed. Disclosure of information will also help increase overall public understanding of development issues, which will in turn lead to increased support for the Bank and its operations.

2.96 The IDB has a number of rules and regulations governing disclosure of information, but it does not have a single, comprehensive policy statement on disclosure. Management will propose the adoption of a comprehensive disclosure policy which is analogous to those adopted by other multilateral development banks and which assumes that, in the absence of a reason for confidentiality, information should be

released. The policy, which will be submitted to the Board of Directors for its consideration in early 1994, will incorporate principles designed to promote accountability and improve project design and execution through disclosure. It will, at the same time, protect the needs of the institution, its employees, its borrowing member countries and cofinancing institutions for confidentiality in certain defined areas.

I. Inspection function

2.97 To increase the transparency, accountability and effectiveness of the Bank's performance, Management is studying options for the introduction of an inspection function, to be performed independently from Management, that would investigate allegations by affected parties that the Bank had failed to apply correctly its own operational policies. Alternatives being considered include a panel of independent experts appointed by the Board of Executive Directors. The panel would be convened only on an as-needed basis in accordance with clear activation procedures established by the Board, and the findings of any investigation would be submitted to the Board for decision.

2.98 A definitive proposal for the inspection function will be submitted by Management for consideration by the Board of Executive Directors in the first half of 1994.

J. Internal audit function

2.99 Management and the Board of Executive Directors will ensure that the Bank continues to maintain an effective and efficient internal audit function to ensure full accountability on administrative, financial, and operational matters, including problems that may arise.

K. Operations evaluation

2.100 The Board and Management are in the process of redesigning the evaluation function of the Bank. The new Bank Evaluation System (BES) will aim at using evaluation as a tool for institutional learning and as an instrument for systematic assessment of the effectiveness of Bank development policies, of the results of Bank-financed activities, and related processes. The BES will distill lessons from the evaluation experience of borrowers, nonborrowing countries, and the Bank's own operations for use in the design of new operations, as well as the improvement of ongoing activities. The Bank will endeavor to promote and support in-country capacity building and facilitate cooperation in evaluation activities with other development agencies.

2.101 The new Evaluation Office (EVO) will be endowed with a high degree of independence as established recently by the Board of Executive

Directors. EVO will contribute towards the Bank's transparency by undertaking independent and systematic evaluations of the Bank's strategies, policies, programs, activities, delivery support functions and systems. EVO will also be responsible for the dissemination of evaluation findings and will provide oversight and support for the enhancement of the effectiveness of the Bank Evaluation System.

L. Concessional lending

2.102 Since 1983 the sources of the Bank's concessional resources have been the Fund for Special Operations (FSO) and the Intermediate Financing Facility (IFF). The FSO provides funds for direct lending while the IFF provides resources to pay part of the interest payments on loans from ordinary capital resources. Over time, these resources have become increasingly concentrated on the poorest, least-developed borrowing member countries as the amount of concessional resources available to the Bank has diminished. The allocation of concessional resources from the Eighth Replenishment is discussed in Chapter IV.

M. Review by Governors

2.103 By April 1998, Management, through the Board of Executive Directors will report to Governors on the status of lending and implementation of the objectives of the Eighth Replenishment. This review will include a report on the adequacy of resources for future lending and the availability of concessional resources, as well as recommendations on any new directions, modalities, or instruments.

CHAPTER III

PROGRAM EXECUTION OF THE SEVENTH GENERAL INCREASE IN RESOURCES DURING THE PERIOD FROM 1990 TO 1993

1. INTRODUCTION

3.1 The Seventh General Increase in Resources agreement defined a lending program focusing on two major goals: (1) financing investments which would contribute to the economic and social progress of borrowing member countries, and (2) assisting member countries to restore sustainable economic growth through improving the strategies and policies for the basic sectors of their economies. The agreement defined some new institutional means to pursue these goals and called for a strengthening of others.

3.2 The Seventh Replenishment agreement also defined a number of program priorities. These included urging the Bank to do its utmost to ensure that 50 percent of its lending program was allocated to benefit the lower income groups. To provide a direct economic incentive to do so, the IDB provided an additional share of financing for projects in which at least 50 percent of the net benefits were directed to low-income beneficiaries. Other priorities included support for the environment, women, micro-entrepreneurs, regional integration, growth and diversification of exports, science and technology, along with modernization and rationalization of public sector institutions. Emphasis was given to improving country dialogue and program planning along with strengthening the evaluation function.

3.3 An overall lending program of US$22.5 billion was defined for the 1990 to 1993 period including US$1.86 billion in Fund for Special Operations (FSO) resources and US$1.136 billion in Intermediate Financing Facility (IFF) assisted ordinary capital (OC) lending. A new lending instrument to provide quick-disbursing sector loans in support of policy reforms was agreed to, with an initial ceiling of up to 25 percent of the overall lending program. Initially these operations were to be carried out in conjunction with the World Bank. The remaining 75 percent of Bank lending was to be provided through traditional investment loans and technical cooperation.

3.4 Over the course of the 1990 to 1993 period the Bank took significant steps to put in place the capacities necessary to respond to the programming challenges defined by the Seventh Replenishment agreement. In general terms, the Bank substantially met the targets and priorities defined in the Seventh Replenishment agreement. An assessment of the IDB lending program carried out by the Institute of Development Studies at Sussex University during 1992 concluded that "overall very favorable results have been

achieved with IDB lending over the 1979-1992 period". 2/ The study judged that IDB involvement in sector loans was positive. By supporting an improvement in the economic policy framework of its borrowing member countries, the Bank helped to reduce bottlenecks and distortions limiting some countries' economic growth, and in some cases the effectiveness of their investment borrowing from the IDB. The adjustment process supported by IDB sector lending was also judged to have played a key role in restoring private sector and commercial banking confidence in the region. This in turn has contributed to increased investment capital flows to the region.

3.5 In 1993, the President commissioned a group of external experts to carry out a review of IDB's portfolio. In October 1993 this group issued the "Report of the Task Force on Portfolio Management", which concluded that "the Bank's portfolio is generally sound and is meeting intended development objectives". 3/ To respond to the emerging challenges of the region the panel of experts recommended that the Bank focus more broadly on the quality and impact of its lending, provide greater support to implementation activities, reexamine organizational arrangements, and strengthen reporting and evaluation.

2. LENDING PROGRAM FOR THE PERIOD FROM 1990 TO 1993

A. Lending parameters

3.6 Document AB-1378 provided for an overall lending program of US$22.5 billion for the period of the Seventh Replenishment, covering the years 1990 to 1993, and defined the size and composition of that lending program by fund and country group. The document set out criteria for the use of concessional resources and reaffirmed a target from the Fifth and Sixth Replenishments of allocating 50 percent of the lending program to benefit lower income groups. The document also outlined the importance of sound environmental management in development activities, and highlighted the role of women in the development process. In addition, the agreement called for the Bank to assume a more active role in working with its borrowing member countries in the formulation and implementation of policies needed for the restructuring and modernization of their economies. For this purpose, it established that the Bank could lend up to 25 percent of total lending for sector loans — i.e., loans that would disburse against imports rather than specific project-related costs — in support of such policy changes.

2/ Assessment of the IDB Lending Programme, 1979-92. The Institute of Development Studies, Sussex University, August 1993. p. vii.

3/ Managing for Effective Development, Report of the Task Force on Portfolio Management for the Inter-American Development Bank, October 1993, p.1.

B. Lending by country group

3.7 Document AB-1378 set a maximum of 65 percent of total resources, equivalent to US$14,625 million in freely convertible resources, for loans to Group A and B countries; while a minimum of 35 percent, or US$7,875 million in convertible resources, was allocated for countries in Groups C and D. The following table summarizes the execution of the Seventh Replenishment by country groups.

Table III-1
Lending program in foreign exchange under the Seventh Replenishment, by country group
(In millions of US$)

	A	B	A & B (65%)	C	D	C & D (35%)	Total
AB-1378 target			14,625			7,875	22,500
Actual approvals							
OC	10,651	3,514	14,165	2,033	2,051	4,084	18,249
IFF	--	--	--	634	211	845	845
FSO	--	--	--	--	1,554	1,554	1,554
Total approvals *	10,651	3,514	14,165	2,667	3,816	6,483	20,649
Program distribution			68.6%			31.4%	100%
Program execution as % of funds allocated			97%			82%	92%

* Totals may not add due to rounding.

C. Policy-related sector lending

3.8 As indicated above, the Seventh Replenishment established that the Bank would make sector loans to support sector or subsector policy and/or institutional changes. No more than 25 percent of the total lending was to be directed to this type of lending during the period 1990 to 1993. In 1992 the Governors authorized additional resources to this program for debt and debt service reduction operations. This allowed the Bank to approve a US$400 million debt restructuring operation to Argentina in late 1992. The following table summarizes the distribution of sector lending commitments by country group over the 1990 to 1993 period:

Table III-2
Sector loan approvals in convertible currencies 1990-1993
(In millions of US$)

GROUP	1990	1991	1992	1993	TOTAL	%
A	900	775	1,150	-	2,825	50
B	300	775	200	-	1,275	22
C	50	225	185	260	720	13
D	60	275	260	234	829	15
TOTAL	1,310	2,050	1,795	494	5,649	100
Percentage of total lending	23	36	32	9	100	
Number of projects	7	14	13	8	42	

3.9 As is evident in Table III-2, total sector loans approved during the Seventh Replenishment period amounted to US$5.649 billion, which was equivalent to 27 percent of total loans approved, but only slightly more than the original ceiling for sector lending of US$5.625 billion. A large share of fast-disbursing resources (over 70 percent) was channelled to countries in Groups A and B, for a total of approximately US$4 billion concentrated in the first three years of the period. For countries in Groups C and D, sector loan approvals tended to be for smaller amounts and were spread more evenly over the 1990 to 1993 period. This was due to factors such as the degree and stage of the stabilization and adjustment programs in these countries. The Bank also approved 12 non-reimbursable parallel technical cooperation operations for an amount of US$76 million to support the implementation of sector loans.

Table III-3
Sector loan approvals in convertible currencies by area, 1990-1993
(In millions of US$)

Energy	Trade & finance	Agriculture	Public sector	Investment	Others*	Total
55	1,439	440	1,725	1,240	750	5,649
1%	26%	8%	30%	22%	13%	100%

* Comprised of the following loans: Debt restructuring $400; Ecological conservation $100; Export adjustment $250

3.10 Sector loans provided in support of reforms in economic sectors were primarily aimed at improving competitiveness. Programs

supported by these loans focused on policy issues directly related to productive activities (e.g. agriculture, trade, finance), and amounted to approximately 35 percent of the total sector lending during the 1990 to 1993 period (or US$1,930 million). Broader programs in areas such as public sector reform (e.g. public divestiture, institutional strengthening, tax and budgeting policies) accounted for 30 percent of total sector lending (or US$1,725 million), whereas programs aimed at enhancing the framework for private investment accounted for approximately 20 percent of total sector lending (or US$1,240 million) during the same period. The remaining 13 percent of total sector lending (or US$750 million) focused on complementary areas such as external debt restructuring and ecological conservation.

3.11 Sector loan compliance with tranche release conditions as of December 31, 1993 indicates that 18 loans, or 55 percent of the total approved, have been fully disbursed; 10 loans or 30 percent have been over 50 percent disbursed; seven loans are between 30 percent and 40 percent disbursed; and five loans (approved in 1993) are in the process of initiating disbursements. Of the US$5.65 billion in fast-disbursing funds approved during the 1990 to 1993 period, almost 80 percent has been disbursed.

D. Use of concessional resources

3.12 For the period from 1990 to 1993 a total amount of US$1.86 billion of FSO resources was available for lending. It was agreed during the Seventh Replenishment negotiations that FSO resources would be allocated to countries in Group D. Furthermore, it was agreed that within this group, preferential treatment would be given to the five countries facing the most severe economic difficulties, and 55 percent of the total FSO loan program was targeted for these countries. The remaining 45 percent was targeted to the other five countries in Group D.

3.13 Document AB-1378 states that in the case of the Intermediate Financing Facility (IFF) a significant portion of the resources available would be directed to Group C countries, and US$100 million would be directed to the relatively more developed countries of Group D. In 1992 the Governors agreed that an additional US$140 million of IFF-assisted ordinary capital lending would be made available as a result of a transfer of US$35 million of ordinary capital net income to the IFF for lending to Group D countries.

3.14 Management made an initial allocation of concessional funds to recipient countries based on the criteria of equal distribution. While some countries fully utilized their share, others did not or could not do so. The reasons for this carryover can be attributed to (i) individual countries not being able to access Bank funds; (ii) agreed limits on the amount of concessional resources which

could be used for any individual project (in order to maximize benefits); and (iii) attempts to use scarce concessional resources as much as possible for projects in the social sectors. Thus, the fact that available concessional resources were not completely exhausted during the period from 1990 to 1993 was not due to lack of demand. In fact, the Group C and D countries borrowed nearly twice as much ordinary capital as IFF and FSO combined during this period.

Table III-4
Total concessional lending to Group C and D countries in 1990-1993, in convertible currencies, by fund (in millions of US$)

	Group C	Group D	Total
Approvals			
IFF	634.1	211.1	845.2
FSO	-	1,554.0	1,554.0
Total approvals	634.1	1,765.1	2,399.2

E. Approvals by sector

3.15 During the Seventh Replenishment period, investment loans and investment components of hybrid loans (combined sector and investment loans) were distributed by sector of economic activity as shown in the following table:

Table III-5
Investment projects approved during 1990-1993 by sector of economic activity and country group, in convertible currencies
(In millions of US$ or equivalent)

	Country group						
Sector	A	B	C	D	Regional	Total	%
Agriculture and fisheries	768	134	46	307	-	1,254	8
Energy	1,105	523	751	437	-	2,817	19
Transport and communications	1,459	756	258	800	-	3,273	22
Industry, mining and tourism	725	-	7	149	-	881	6
Social infrastructure	2,884	590	543	842	186	5,044	34
Others	522	154	236	330	490	1,732	12
Total *	7,463	2,156	1,841	2,864	676	15,000	100

* Includes US$152.2 million of IFF and FSO lending from Seventh Replenishment resources authorized in 1989 and the investment component of hybrid loans. Totals may not add due to rounding.

3.16 The Bank's efforts to finance projects in the social infrastructure sectors resulted in US$5 billion of approvals or 34 percent of investment lending in convertible currencies and approximately 25 percent of overall Bank lending including sector loans. The share of social sector investments in the 1990-1993 lending program of the Bank increased from US$3.9 billion at the end of the Sixth Replenishment to just over US$5 billion in the Seventh Replenishment. Approvals in this area included projects for water supply and sewerage, programs for housing reform, municipal development, education, health care programs, science and technology, and environmental projects.

3.17 Approvals in convertible currencies for the transport and communications sectors amounted to 22 percent of the total, followed by energy (19 percent); agriculture and fisheries (8 percent); industry, mining and tourism (6 percent); and others (12 percent), which included preinvestment and multisector credit programs.

F. Technical cooperation

3.18 The technical cooperation program was closely tied to the Bank's operational program by providing support to the countries' preinvestment activities, institutional strengthening, including personnel training, and implementation of IDB-financed projects.

Regional and subregional technical cooperation initiatives to promote economic integration programs were also an important component of the Bank's technical cooperation program. Total financing of nonreimbursable technical cooperation programs was equivalent to US$367 million, of which 17 percent was approved for Groups A and B, 49 percent for Groups C and D, and 34 percent to finance regional initiatives. The net income of the FSO continued to be the principal source of technical cooperation financing, which accounted for 70 percent of the total program. An additional 13 percent of financing came from the resources of the Japan Fund, 11 percent from the U.S. Social Progress Trust Fund (SPTF) resources, and 6 percent from other donor funds.

Table III-6
Nonreimbursable technical cooperation approvals during 1990-1993
(In millions of US$)

Type of technical cooperation	Seventh Replenishment				
	No.	Convert.	Local	Total	%
Regular	178	174.1	145.1	319.2	87.0
Parallel to small projects	153	6.4	13.4	19.8	5.4
CT/INTRA	143	0.2	1.8	2.0	0.5
Short-term mission	375	10.2	0.4	10.6	2.9
Project Preparation Facility	89	11.7	-	11.7	3.2
CT/FONDOS	51	3.4	0.2	3.5	1.0
Total *	989	206.0	160.8	366.7	100.0
%		56.2	43.8	100.0	

* Totals may not add due to rounding.

Table III-7
Nonreimbursable technical cooperation approvals during 1990-1993 from FSO Net Income, in convertible currencies (In millions of US$)

Group	1990	1991	1992	1993	Total	%
A	0.3	0.9	0.4	1.5	3.2	2.5
B	0.7	5.1	0.3	0.6	6.7	5.4
C	8.5	13.9	2.0	4.7	29.2	23.3
D	11.6	24.7	6.3	10.9	53.5	42.7
Regional	6.5	14.8	5.3	6.2	32.8	26.2
Total*	27.6	54.9	14.5	23.9	125.4	100.0

* Totals may not add due to rounding

Table III-8
Nonreimbursable technical cooperation approvals by fund during 1990-1993 (In millions of US$)

Fund	Seventh Replenishment			
	Convert.	Local	Total	%
FSO (Net income)	125.4	130.8	256.3	69.9
Japan Fund	46.5	-	46.5	12.7
SPTF	11.7	29.9	41.6	11.4
Switzerland	4.7	-	4.7	1.3
Sweden	4.6	-	4.6	1.3
EU	3.9	-	3.9	1.1
Global Environmental Trust Fund	3.3	-	3.3	0.9
Canada	1.8	-	1.8	0.5
Norway	1.8	-	1.8	0.5
Other	2.2	-	2.2	0.6
Total*	206.0	160.8	366.7	100.0

* Totals may not add due to rounding.

3. AREAS OF SPECIAL EMPHASIS IN THE BANK'S PROGRAMS

A. Low-income beneficiaries

3.19 A mandate for the Bank to direct 50 percent of its lending program towards benefiting low-income groups was included in the Seventh Replenishment agreement, as it was in the Fifth and Sixth Replenishment agreements. This objective has been pursued directly by the Bank, through specifically targeted projects and through more general means such as sector loans and investment projects aimed at improving overall economic conditions including lowering inflation, promoting economic growth and employment.

3.20 Distributional impact coefficients (DIC) have been calculated on approximately half of the individual projects approved each year with the value of the portfolio evaluated ranging from 44.3 percent in 1990 to 71.9 percent in 1993. These calculations estimate the percentage of a project's benefits accruing to low-income groups. The Weighted Total DIC is a weighted average calculation using one of two indicators which are based on either a cost-benefit analysis (DIC-CB) or a head-count approach (DIC-HC). These coefficients (DIC-HC and DIC-CB) are weighted by the percentage, in the monetary value, of all the loans evaluated under each methodology. The Weighted Total DIC does not reflect the distributive impact of certain types of lending operations where it is difficult or impossible to define low-income beneficiaries as a proportion of all the beneficiaries of the loan. These include global loans, preinvestment, and sector lending. Management believes, however, that many of these programs will have some positive impact on the low-income groups over the longer term. The calculation of DIC is thus limited to only a portion of the lending program. Care must be taken in interpreting results from these partial indicators as estimations are themselves limited in two important ways. Firstly, calculations made on only a portion of the portfolio cannot be used to extrapolate results for the overall portfolio. Secondly, the result of the weighting, based on the volume of lending related to each of the two indicators, is affected by the size of projects, and projects of smaller size, e.g. in basic health and education, are usually evaluated using the head-count approach and tend to be better targeted to the poor. Therefore, the cost-benefit (DIC-CB) indicator consistently demonstrates results below those of the head-count method (DIC-HC). The blending of these two partial indicators into a single weighted coefficient therefore produces an indicator of only limited usefulness.

3.21 Over the four-year replenishment period the Bank has calculated, based on the above methodology, that it has achieved an average of approximately 40 percent of project benefits accruing to low-income groups of the projects evaluated. The downward trend in the Weighted Total DIC evident in Table III-9 is in part a result of an

increase in the proportion of loans being evaluated using the cost-benefit analysis method, which generally produces lower DIC values. Another explanatory factor is the special composition of the portfolio during the 1990 to 1993 period. For example, the sensitivity and bias within the methodology can be noted from the fact that were three large energy projects approved in 1993 to be excluded from the calculations, the Weighted Total DIC would increase from the reported 33.4 percent to 40 percent. Similarly, in 1992, were one large transportation sector project excluded from the calculations, the total DIC would increase from the reported 34.8 percent to 49.4 percent.

3.22 Over the period of the Seventh Replenishment the gravity of the debt repayment crisis of many Latin American countries commanded priority attention. Pursuit of structural adjustment, in order to achieve macroeconomic balances and to restore the conditions for growth, was central for both borrowing members and the Bank. IDB support to structural adjustment began in earnest in 1990. Over the short run, both as a result of stabilization measures and structural adjustment, in many countries the number of poor increased and income distribution worsened as alleviating fiscal constraints became an overriding policy objective. Towards the end of the Seventh Replenishment period, however, borrowing member countries were increasingly concerned with the sustainability of the reform process by placing greater emphasis on social reform and poverty reduction. It is expected that the positive impacts of adjustment and policy reforms made will become more evident in the future.

Table III-9
Estimated Distributive Impact Coefficient (DIC)

Year	DIC-CB	% of loans with DIC-CB	DIC-HC	% of loans with DIC-HC	% of Loans with weighted DIC	Weighted Total DIC
1989	25.7	54	76.2	46	59.1	49.2
1990	32.7	71	63.3	29	44.3	41.6
1991	35.6	84	76.1	16	43.9	42.0
1992	18.8	52	52.2	48	53.3	34.8
1993	25.3	75	64.6	25	71.9	33.4

3.23 In order to improve the Bank's performance in channeling benefits to the low-income groups, Bank Management is developing a strategy to increase its activities in the social sectors and to help reduce poverty in the region. Experience during IDB-7 indicates that careful targeting is a key factor in achieving the objective of

project benefits accruing to the lower income groups. A three-pronged approach to support borrowing countries' efforts to reduce poverty is being developed to improve the Bank's capacity to deliver additional benefits to the lower income groups. These include: (i) increasing the focus in the programming process and country dialogue on poverty reduction and social policy issues; (ii) designing and implementing social sector and fiscal reforms to increase resource availability and improve the scope and efficiency of the delivery of social services; and, (iii) enhancing the poverty-reduction impact of Bank operations through the selection and appropriate design of all of its projects. Based on program dialogue with borrowing member governments, country programming will continue to define expected results in order to facilitate program evaluation and improve programming effectiveness over time in directing benefits to lower income groups.

B. Environmental considerations

3.24 The Bank has been very active in promoting environmental quality in all of its operations during the period of the Seventh Replenishment. The Environment Protection Division assists country and project teams directly to ensure that IDB operations are environmentally sound, and is responsible for identifying and preparing renewable natural resources and environmental projects. The Division also deals with environmental quality, environmental development in project preparation, and environmental policy, planning, and research issues.

3.25 The Environmental Management Committee (CMA) is a management-level committee which meets regularly to address environmental issues. The CMA reviews the environmental aspects of the Bank's operations, and proposes policies and strategies to address environmental risks and opportunities in Bank operations, coordinates inter-departmental efforts regarding environmental activities, and ensures compliance of Bank operations with internal environmental quality control requirements. The committee reviews every operation processed by the Bank to determine the level of environmental analysis needed, and ensures that the analysis is carried out in a satisfactory manner and that its conclusions are incorporated into the operation.

Table III-10
Operations specifically prepared to address the environment and natural resources during 1990-1993, in convertible and local currencies (In millions of US$)

	1990		1991		1992		1993		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Loans	4	485	8	811	9	1121	13	1169	34	3586
TCs	24	3	48	30	37	14	58	23	167	71
TOTAL	28	488	56	841	46	1135	71	1192	201	3657

3.26 As a result of the strengthening of the review process in the IDB, the Bank has significantly improved its ability to screen operations for environmental sustainability and to avoid negative environmental impacts as well as enhancing positive impacts. Every single operation is carefully screened from its earliest stage to ensure the application of the minimum standards established by the borrowers themselves and by the Bank. Over the period from 1990 to 1993 the Bank approved US$3.7 billion for 34 projects addressing urban (75 percent) and rural (25 percent) environmental issues as well as for the strengthening of environmental institutions in the region. In addition, 167 technical cooperations and small project operations, totaling US$70.5 million, have been approved since 1990 to address environmental issues in the region.

3.27 A major portion of the Bank's activity regarding the environment has been to facilitate the participation of affected populations. The coordination of the Bank's activities with these groups has been enhanced through periodic meetings, including three major meetings on the environment and participation. A special effort has been made to address the concerns of affected populations. The Bank supported the region's governments in their participation in the Earth Summit held in Rio de Janeiro in June 1992, and prepared two important documents: *Our Own Agenda* and *Amazonia without Myths*.

C. Women in development

3.28 During the Seventh Replenishment period the Bank made steady progress in the area of women in development. Continued implementation of the Bank's Women in Development Policy and the approval of an Action Plan, increased attention to the issue in the Bank's programming activities and in its operations over the 1990 to 1993 period. In 1993, some 18 percent of the Bank's loans included a thorough analysis of women's potential participation in the projects as well as concrete steps to improve their participation. This compares favorably with the 6 percent of loans

that included this focus in 1990. However, these figures show that the Bank still has some distance to go to fully implement the WID Policy.

3.29 Also during the 1990 to 1993 period the Bank made significant progress in strengthening its own institutional capacity to address the concerns of the WID Policy. The Bank's WID unit was expanded and provided systematic review and input into Bank projects affecting women. The unit conducted several studies and prepared sectoral guidelines aimed at improving Bank performance in this area. The Bank increased its cooperation and coordination with a range of international organizations addressing WID issues and held several international workshops and seminars providing training on WID issues to both Bank staff and officials from the region.

3.30 During the period the Bank supported a broad range of institutional strengthening activities for both public and private sector organizations representing and promoting women's interests in several borrowing countries through its technical cooperation programs. In addition, the Bank financed several regional technical cooperation programs to strengthen women's roles in agriculture and microenterprise. Currently, the Bank's WID programs are increasingly focusing on strengthening women's vital role in the social reform process.

D. Microenterprise and Small Projects

3.31 During 1990 to 1993 the Bank supported microenterprises through 170 individual operations for a total amount of US$278 million. The qualitative changes in microenterprise support during the Seventh Replenishment are as striking as the accomplishments that can be quantified. Bank support emphasized institutional strengthening of the intermediary organizations, their administrative and financial self-sufficiency, new credit management techniques, accountability and responsibility in the management of loan portfolios, and the elimination of distortions in resource transfers to microentrepreneurs.

3.32 Increasing attention was paid to the non-financial aspects of the context within which microenterprises and their support organizations were operating. Diagnostic assessments of the legal and regulatory frameworks affecting microenterprises were carried out in three countries. Likewise, the limitations and conditions facing the NGOs, credit unions, and other organizations of civil society interacting directly with microenterprise development, constitute a growing focus of the Bank's microenterprise program.

Table III-11
Microenterprise and Small Projects approvals during 1990-1993
in convertible and local currencies
(In millions of US$)

	1990		1991		1992		1993		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Microenterprise	3	37.2	1	45.0	4	42.0	3	77.6	11	201.8
Small Projects	13	6.3	43	20.8	49	23.1	54	25.6	159	75.8
Total	16	43.5	44	65.8	53	65.1	57	103.2	170	277.6

E. Cofinancing

3.33 The Bank's approach to the cofinancing of Bank projects underwent significant changes, with both bilateral and multilateral sources playing a more important role. Over this period total cofinancing amounted to approximately US$7 billion. Cofinancing with the IBRD increased dramatically from US$667 million in 1990 to US$2.2 billion in 1991, due primarily to the joint sector adjustment program initiated with the Seventh Replenishment. As the Bank proceeded to undertake policy-based sector lending on its own, cofinancing with the World Bank decreased to US$969 million in 1992 and to an amount of US$340 million in 1993. Cofinancing with Japan during the Seventh Replenishment amounted to over US$2.2 billion or 31 percent of the total. Other active sources of cofinancing for Bank projects included the European Investment Bank (EIB), the Andean Development Corporation (CAF), the International Fund for Agricultural Development (IFAD), the OPEC Fund, USAID, the Scandinavian countries, Spain, Germany's KfW, and Switzerland.

Table III-12
Cofinancing during 1990-1993
(In millions of US$)

Sources	1990	1991	1992	1993	Total	%
IBRD	667	2,277	969	340	4,253	59.6
Japan	29	812	635	741	2,217	31.1
EIB	-	42	11	112	165	2.3
CAF	51	25	85	100	261	3.7
Scandinavia	-	8	6	14	28	0.4
IFAD	-	-	-	6	6	0.1
Others	18	67	90	30	205	2.8
Total	765	3,231	1,796	1,343	7,135	100.0

F. Country programming and strategic planning

3.34 The programming process and policy dialogue between the Bank and its borrowing member countries was strengthened and improved. The quality and utility of country and regional programming papers (CPPs/RPPs) improved as a result of the increased integration of Bank experiences, through a country and project team approach.

3.35 Over the period from 1990 to 1993, 32 country programming papers and five regional programming papers were produced and 62 country programming missions were completed. These were supported by 31 country socioeconomic studies. This strengthened the programming process and contributed to improvements in the identification, selection, composition and degree of readiness of the Bank's operational pipeline during the period from 1990 to 1993.

3.36 Also during this period strategic planning was strengthened. A number of strategic corporate studies were carried out. These included policy papers supporting the social reform process, privatization, and demographic issues, as well as an assessment of the Bank's lending program over the Fifth, Sixth, and Seventh Replenishment periods.

G. Evaluation activities

3.37 Over the Seventh Replenishment period a wide range of evaluation activities were carried out addressing both program impact and the program processes of the Bank. More than 20 impact and performance studies focusing on a range of sectors including telecommunications, agricultural research and extension, environment

management and women in development were completed. In addition, issues of evaluation methodology were addressed through several studies, and in 1994, as a consequence of a Board of Directors decision, a new Evaluation Office was created. This new office is expected to enhance the scope and coverage of evaluation of operations, policies and programs, through a focus on measurable results.

H. Social Agenda Policy Group (SAPG)

3.38 In 1992 the President of the Bank established a high-level Social Agenda Policy Group (SAPG). The SAPG was conceived as an instrument for the expansion of the activities of the Bank in the social sectors. Its purpose was to define an approach for enhancing the Bank's activities in support of the social sectors. Since its establishment, the SAPG has carried out three major pilot missions, to Trinidad and Tobago, Chile and Venezuela. Through these missions, issues for inclusion in agendas for sectoral reform have been identified involving broad-based dialogue in the borrowing member countries with the governments and elements of civil society in the shared definition of reform priorities and strategy.

4. DISBURSEMENTS DURING THE SEVENTH REPLENISHMENT PERIOD

3.39 During the 1990 to 1993 period, the Bank disbursed a total of US$12.2 billion, in freely convertible currencies of the ordinary capital and the Fund for Special Operations. This represents an increase of approximately 46 percent over disbursements during the previous four-year period (1986 to 1989). Of the total convertible resources disbursed, 9.4 percent came from the FSO and 90.6 percent from ordinary capital resources. The table below shows the amounts for each year, broken down by type of resources.

Table III-13
Disbursements authorized during the 1990-1993 period in convertible currencies, by fund
(In millions of US$ or equivalent)

Funds	1990	1991	1992	1993	Total
OC	2,122.1	2,800.8	2,776.5	3,328.1	11,027.5
FSO	268.5	250.3	309.9	311.7	1,140.4
Total	2,390.6	3,051.1	3,086.4	3,639.8	12,167.9

5. FINANCIAL ACTIVITIES

3.40 At the beginning of the Seventh Replenishment period, and for the first time ever, the Bank experienced protracted arrears in its

loan portfolio. These arrears however, were fully cleared during the period, reflecting the unwavering commitment of member countries to the Bank.

3.41 During the Seventh Replenishment period, all major financial policies were reviewed and updated in order to improve the Bank's financial management and to make it more efficient. This included liquidity and investment policies, borrowing policy, and currency selection policy.

3.42 During the Seventh Replenishment period, the Bank raised the equivalent of US$14.5 billion of funding from the world capital markets and repaid US$7.2 billion. Consequently, the net borrowings during the period reached the equivalent of US$7.3 billion. Of the amount repaid, US$2.4 billion corresponded to high coupon debt, redeemed in advance and replaced by lower cost funding. The average cost of the Bank's new borrowings was 6.5%. As a result of improved financial management systems the Bank narrowed its spread over comparable benchmark issues.

3.43 The major rating agencies continued to affirm the Bank's AAA rating throughout the Seventh Replenishment period. Their rating, which has remained unchanged since the Bank was founded, is based upon the solid support from the governments of member countries, on the prudent limits set by statute, by management policy, and on a highly satisfactory financial performance.

6. CONCLUSION

3.44 The Seventh Replenishment period was one of major accomplishments for both the region and the Bank. The Bank achieved its highest levels of annual lending ever and made a significant contribution in support of the major economic, social and political changes which occurred in the region during the period. The average annual lending level between 1990 and 1993 increased to approximately US$5.3 billion as compared with US$2.5 billion over the period from 1985 to 1989. Funding for technical cooperation and small projects increased dramatically during the Seventh Replenishment with approximately a doubling and quadrupling in value of these activities respectively. Also during this period the IDB became the single most important provider of official external financing to the region, particularly for the smaller and poorer countries. The Bank continued to promote well-designed, financially viable investment projects, played an important role in the public-sector debt restructuring of several countries, and at the same time became a major partner in the region's macroeconomic and development policy dialogue. The IDB's contribution to this policy dialogue and process of economic adjustment reflected its evolving role as an international multilateral development institution, and its identity as a regional bank committed to the economic and social development of Latin America and the Caribbean.

CHAPTER IV
SHAREHOLDING STRUCTURE, FINANCIAL PARAMETERS AND LENDING AUTHORITY OF THE EIGHTH GENERAL INCREASE IN RESOURCES

1. SHAREHOLDING STRUCTURE

A. Capital structure at the end of the Eighth General Increase in the Resources of the Bank

4.1 As part of the Eighth General Increase in the Resources of the Bank, the share distribution of the existing country groups, i.e. Latin America and the Caribbean, the nonregional members, the United States, and Canada, will be changed, by the end of the Eighth Replenishment, to reflect the following: Latin America and the Caribbean will decrease from 53.86 percent to 50.013 percent, the United States will decrease from 34.67 to 30.029 percent, Canada will decrease from 4.38 percent to 4.002 percent, and the nonregional members will increase from 7.09 percent to 15.955 percent. Within the nonregional and Latin America and Caribbean groups, there will also be capital share and voting power realignments. Table IV-1 below indicates the voting power at the end of the Seventh Replenishment and the voting power outcome at the end of the Eighth Replenishment which results from the changes in the distribution of shares.

TABLE IV-1 1/
Voting power by country group and by country

Country	Voting power End of IDB-7 (%)	Voting power End of IDB-8 (%)
Latin America and Caribbean	53.867	50.018
U.S.	34.627	30.008
Canada	4.374	4.001
Nonregionals	7.132	15.973
Argentina	11.575	10.752
Bahamas	0.226	0.209
Barbados	0.141	0.130
Belize	0.121	0.111
Bolivia	0.932	0.865
Brazil	11.575	10.752
Chile	3.180	2.953
Colombia	3.178	2.953
Costa Rica	0.467	0.433
Dominican Republic	0.623	0.577
Ecuador	0.623	0.577
El Salvador	0.467	0.433
Guatemala	0.623	0.577
Guyana	0.175	0.162
Haiti	0.467	0.433
Honduras	0.467	0.433
Jamaica	0.623	0.577
Mexico	7.442	6.912
Nicaragua	0.467	0.433
Panama	0.467	0.433
Paraguay	0.467	0.433
Peru	1.553	1.440
Suriname	0.097	0.089
Trinidad and Tobago	0.467	0.433
Uruguay	1.243	1.154
Venezuela	6.203	5.761
Canada	4.374	4.001
United States	34.627	30.008
Austria	0.082	0.161
Belgium	0.190	0.329
Croatia	0.025	0.050
Denmark	0.087	0.171
Finland	0.082	0.161
France	0.965	1.896
Germany	0.988	1.896
Israel	0.081	0.158
Italy	0.965	1.896
Japan	1.076	5.001
Netherlands	0.149	0.338
Norway	0.087	0.171
Portugal	0.028	0.055
Slovenia	0.016	0.031
Spain	0.965	1.896
Sweden	0.167	0.327
Switzerland	0.218	0.472
United Kingdom	0.965	0.964
TOTAL	100.000	100.000

1/ Unassigned shares of 2,255 are provided for possible membership of the Republic of Bosnia and Herzegovina and the Federal Republic of Yugoslavia. In addition, this table reflects minor adjustments to shareholdings of Colombia and Peru.

B. Paid-in capital: Determining the percentage of paid-in capital to be subscribed

4.2 The Eighth General Increase in the Resources of the Bank is intended to provide additional capital to the Bank while, at the same time, realigning shares and voting power. Therefore, the proportion of paid-in capital to be subscribed by individual members will vary and is based on: (i) the share and voting power changes; (ii) the level of paid-in for the total increase of capital resources (that is, 2.5 percent of US$40 billion or US$1 billion); and (iii) the condition that, for equity reasons, all members have virtually the same cumulative percentage (4.299 percent 4/) of paid-in capital by the end of the Eighth Replenishment. 5/

4.3 In practice, new shares are first allocated by country group and by country to achieve the desired voting power distribution shown in Table IV-1. The number of new paid-in shares to be subscribed by individual members is then determined so that it results in each member and/or group's cumulative paid-in subscription being as close as possible to 4.299 percent of the total by the end of the Eighth Replenishment. The resulting allocation of paid-in shares is shown in Table IV-2.

4/ Existing capital subscriptions plus a US$40 billion capital increase with 2.5 percent paid-in yields a total cumulative capital of US$100.96 billion with US$4.34 billion or 4.299 percent paid-in.

5/ While Latin American and Caribbean countries as a group will have a cumulative paid-in percentage of 4.299 percent, the cumulative paid-in of individual countries varies above and below that level. In particular, those regional countries which became members after 1976 will not subscribe additional paid-in shares as part of the capital increase since their cumulative paid-in percentage will remain above 4.299 percent. In addition, small differences in members' paid-in percentage may exist because of the indivisibility of shares.

TABLE IV-2 1/
Distribution of paid-in shares to be purchased by country group and by country

Country	Eighth Capital Increase			Cumulative paid-in shares as a % of total shares at the end of IDB-8
	Number of paid-in shares	Paid-in shares as a % of total shares	Paid-in U.S. dollar equivalent (millions)	
Latin America and Caribbean	30,200	2.06	364.32	4.299
U.S.	12,738	1.67	153.66	4.299
Canada	2,015	1.77	24.31	4.299
Nonregional	37,851	3.88	456.61	4.299
Argentina	6,720	2.14	81.07	4.283
Bahamas	0	0.00	0.00	5.495
Barbados	0	0.00	0.00	4.337
Belize	0	0.00	0.00	6.505
Bolivia	540	2.14	6.51	4.282
Brazil	6,720	2.14	81.07	4.283
Chile	1,851	2.14	22.33	4.283
Colombia	1,853	2.14	22.35	4.283
Costa Rica	269	2.13	3.25	4.283
Dominican Republic	361	2.14	4.35	4.282
Ecuador	361	2.14	4.35	4.282
El Salvador	269	2.13	3.25	4.283
Guatemala	361	2.14	4.35	4.282
Guyana	0	0.00	0.00	4.823
Haiti	269	2.13	3.25	4.283
Honduras	269	2.13	3.25	4.283
Jamaica	361	2.14	4.35	4.282
Mexico	4,316	2.13	52.07	4.283
Nicaragua	269	2.13	3.25	4.283
Panama	269	2.13	3.25	4.283
Paraguay	269	2.13	3.25	4.283
Peru	889	2.12	10.72	4.283
Suriname	0	0.00	0.00	6.456
Trinidad and Tobago	269	2.13	3.25	4.283
Uruguay	718	2.13	8.66	4.284
Venezuela	2,997	1.78	36.15	4.283
Canada	2,015	1.77	24.31	4.299
United States	12,738	1.67	153.66	4.299
Austria	355	3.81	4.28	4.297
Belgium	653	3.64	7.88	4.301
Croatia	111	3.86	1.34	4.306
Denmark	375	3.79	4.52	4.302
Finland	355	3.81	4.28	4.297
France	4,166	3.79	50.26	4.299
Germany	4,105	3.77	49.52	4.299
Israel	348	3.79	4.20	4.297
Italy	4,166	3.79	50.26	4.299
Japan	15,041	4.13	181.45	4.299
Netherlands	813	3.91	9.81	4.300
Norway	375	3.79	4.52	4.302
Portugal	126	3.95	1.52	4.291
Slovenia	69	3.88	0.83	4.314
Spain	4,166	3.79	50.26	4.299
Sweden	714	3.76	8.61	4.298
Switzerland	1,104	3.88	13.32	4.300
United Kingdom	809	2.54	9.76	4.299
TOTAL	82,804	2.50	998.90	4.299

1/ Unassigned shares of 2,255 are provided for possible membership of the Republic of Bosnia and Herzegovina and the Federal Republic of Yugoslavia. In addition, this table reflects minor adjustments to shareholdings of Colombia and Peru.

2. PARAMETERS FOR THE CAPITAL INCREASE

A. Size of the capital increase

4.4 The Eighth General Increase in Resources will provide an additional US$40 billion equivalent in ordinary capital resources to the Bank. The paid-in portion of capital will be 2.5 percent, amounting to approximately US$1 billion equivalent; the remaining 97.5 percent, or US$39 billion, will be provided in the form of callable capital.

B. Lending parameters

4.5 In 1994 the Bank is expected to lend approximately US$6 billion in convertible currencies. A US$40 billion increase in capital, loan repayments, reserve additions, and the results of the change in borrowing policy approved in 1991, would allow increases in this lending level, as needed. Actual lending in any given year will vary depending on the borrowers' needs and capacities, the state of the Bank's project pipeline, and the Bank's capacity to prepare good projects. The proportion of Bank financing provided to individual projects will be guided by the limits set forth in the financing matrix, as well as the country's willingness to make an important financial commitment to the investment and to its long-run sustainability. The Bank has a long history of supporting the smaller countries of the region. Thus, it will continue to have as an indicative goal to lend 35 percent of total lending to the countries of Group C and D; this percentage may vary given the priority on lending with a poverty reduction focus. Actual lending programs for successive three-year periods will be presented annually to the Board of Executive Directors as part of the Bank's medium-term planning framework.

C. Subscription and encashment

4.6 Capital subscriptions will be provided to the Bank in six equal installments over the 1994 to 1999 period. Members will have the option of delivering non-interest-bearing promissory notes or similar instruments to the Bank to meet their payments on paid-in subscriptions in lieu of immediate cash payments. Each note would be redeemed in five equal annual encashments over the 1994-2003 period.

D. Currencies

4.7 All of the capital subscriptions are to be made in freely convertible currencies. For the paid-in capital, payments shall be made in the currency of the member, in such a manner as to assure that the currency is freely convertible for the purposes of the Bank's operations or with the agreement of the member to convert on

behalf of the Bank its currency into those of other members for the same purpose.

3. PARAMETERS FOR THE INCREASE IN THE FUND FOR SPECIAL OPERATIONS (FSO)

A. Size of the increase to the Fund for Special Operations

4.8 There will be an additional US$1 billion equivalent of total new contributions to the FSO, divided into basic, supplemental and special contributions as indicated in Table IV-3. This amount, together with reflows and other sources, would permit continuation of FSO lending at or above levels attained during 1990 to 1993. The Board of Executive Directors will determine the appropriate FSO annual lending program and lending terms and conditions on the basis of availability of resources and development needs. The resources of the FSO shall be managed on a basis which can ensure a steady and predictable level of assistance until such time as Governors may decide in favor of an increase in FSO resources. Given the probable needs over the 1994 to 1997 period, and the limited amount of FSO available, these resources will be used exclusively in the poorest, least developed countries in Group D (presently Bolivia, Guyana, Haiti, Honduras and Nicaragua) and for the Caribbean Development Bank for on-lending to eligible non-IDB member countries.

4.9 The Board of Executive Directors will determine the appropriate annual levels of Intermediate Financing Facility (IFF) and nonreimbursable convertible currency technical-cooperation support. Countries in the C and D country groups with incomes below US$1,600 GDP per capita as shown in the 1993 IDB Annual Report would be eligible for IFF support and national technical-cooperation grants, with priority given to the poorest countries. Given the probable needs over the 1994 to 1997 period, and the limited amount of IFF resources available, it is anticipated that the Board of Executive Directors would program IFF-assisted ordinary capital lending in such a manner that the available resources for lending in the early years would approximate Seventh Replenishment levels. By April 1996 there will be a review of the needs of the D1 countries relative to the availability of IFF resources. For the borrowers using the IFF, the percentage of IFF lending in the mix and therefore the effective percentage subsidy may vary, *inter alia*, with the per capita income levels. The Board may revise the per capita ceiling to reflect significant changes in economic conditions.

B. Use of FSO liquidity to generate funding for technical cooperation and the Intermediate Financing Facility

4.10 FSO loan income, during this period, will be largely a function of previously approved loans, so that the income from these loans is essentially fixed. Therefore, FSO liquidity with its resulting

investment income must be adjusted, via the schedule of encashments, to meet technical cooperation and IFF objectives. A set schedule of encashments enables the Bank to generate a predictable source of funding for its IFF and technical cooperation activities. This in turn will permit the Bank to program its activities, particularly technical cooperation, on a multi-year basis. This will solidify technical cooperation as a main-line activity with predictable financing rather than as a residual activity undertaken only when resources are available.

C. Schedules of contributions and encashments

4.11 FSO contributions would be payable in four equal installments for the basic US$199.87 million contribution, and in six equal installments for the remaining supplemental and special contributions. As is the case for capital subscriptions, members will have the option of delivering non-interest-bearing promissory notes or similar instruments to meet their payments in lieu of immediate cash payments. In the period beginning on the sixth year after the effective date of the replenishment agreement and ending on December 31, 2004, the Bank will, by periodic transfers from the Ordinary Capital net income, consistent with prudent financial management, make up any shortfall in the unallocated special contributions existing during that period which is not covered by member country contributions pursuant to the agreements set out in the footnotes in the following table.

Table IV-3 — Basic, supplemental, and special FSO contributions (US$ equivalent)

Member country	Basic	Supplemental	Special	Total FSO contributions
Regional borrowers				
Argentina	11,352,000		2,038,720	13,390,720
Bahamas	258,000		46,335	304,335
Barbados	35,000		6,286	41,286
Belize	180,000		32,326	212,326
Bolivia	926,000		166,301	1,092,301
Brazil	11,352,000		2,038,720	13,390,720
Chile	3,190,000		572,896	3,762,896
Colombia	3,190,000		572,896	3,762,896
Costa Rica	457,000		82,073	539,073
Dominican Republic	621,000		111,526	732,526
Ecuador	621,000		111,526	732,526
El Salvador	457,000		82,073	539,073
Guatemala	621,000		111,526	732,526
Guyana	199,000		35,739	234,739
Haiti	457,000		82,073	539,073
Honduras	457,000		82,073	539,073
Jamaica	621,000		111,526	732,526
Mexico	7,947,000		1,427,212	9,374,212
Nicaragua	457,000		82,073	539,073
Panama	457,000		82,073	539,073
Paraguay	457,000		82,073	539,073
Peru	1,571,000		282,139	1,853,139
Suriname	152,000		27,298	179,298
Trinidad and Tobago	457,000		82,073	539,073
Uruguay	1,243,000		223,232	1,466,232
Venezuela	7,947,000		1,427,212	9,374,212
Unallocated 1/	-		40,000,000	40,000,000
Subtotal regional borrowers	55,682,000		50,000,000	105,682,000
Regional nonborrowers				
Canada	11,069,000		9,000,000	20,069,000
United States	82,304,000			82,304,000
Total regional members	149,055,000		59,000,000	208,055,000
Nonregional				
Austria	566,000	3,944,166	200,000	4,710,166
Belgium	1,343,000	6,967,127	400,000	8,710,127
Croatia	161,000	1,217,881	100,000	1,478,881
Denmark	604,000	4,191,795	200,000	4,995,795
Finland	566,000	3,944,166	200,000	4,710,166
France	6,901,000	46,566,910	500,000	53,967,910
Germany	7,067,000	45,404,737	2,500,000	54,971,737
Israel	559,000	3,889,431	200,000	4,648,431
Italy	6,901,000	46,566,910	2,500,000	55,967,910
Japan	7,698,000	196,228,570	192,000,000	395,926,570
Netherlands	1,050,000	9,475,790	400,000	10,925,790
Norway	604,000	4,191,795	200,000	4,995,795
Portugal	182,000	1,351,817	100,000	1,633,817
Slovenia	93,000	753,307	100,000	946,307
Spain	6,901,000	46,566,910	1,000,000	54,467,910
Sweden	1,175,000	8,037,116	400,000	9,612,116
Switzerland	1,541,000	12,699,588	500,000	14,740,588
United Kingdom	6,901,000		500,000	7,401,000
Pending 2/	-	1,138,720	-	1,138,720
Additional unallocated 3/	-	-	96,000,000	96,000,000
Total nonregional members	50,813,000	443,136,736	298,000,000	791,949,736
GRAND TOTAL	199,868,000	443,136,736	357,000,000	1,000,004,736

1/ To be paid at the time of and in equal proportions to future contributions to the US$96 million Unallocated Special Contributions within six years of the effective date of the Replenishment by contributions from regional countries. Any remaining gap in the unallocated portion of the Special Contributions six years after the effective date of the Replenishment will be covered by transfers from the net income of the Ordinary Capital.

2/ Amount which must be contributed by those nonregional member(s) wishing to subscribe the 2,255 unallocated OC shares, in case Bosnia and Herzegovina and the Federal Republic of Yugoslavia do not join the Bank. Should they join, this amount will not be contributed to the FSO-8, but Bosnia and Herzegovina and the Federal Republic of Yugoslavia would be expected to contribute US$282,000 to the Basic FSO-8 Increase.

3/ Additional unallocated special contributions to be paid within six years of the effective date of the Replenishment by contributions from nonregional countries. Any remaining gap in the unallocated portion of the Special Contributions six years after the effective date of the Replenishment will be covered by transfers from the net income of the Ordinary Capital.

4.12 In order to maintain FSO liquidity at the desired levels, the remaining unencashed FSO balances of the two previous IDB Replenishments (Sixth and Seventh), equivalent to US$662.02 million, will be redeemed in five equal encashments during the 1994 to 1998 period. Encashments of promissory notes from the new Eighth Replenishment FSO contributions for the basic US$199.87 million contribution will take place in equal amounts over the ten year period 1994-2003. Promissory notes from the remaining supplemental and special contributions will be encashed in six equal amounts over the period 1999-2004.

D. Maintenance of value

4.13 No maintenance of value obligations will apply to member contributions to the FSO.

E. Transfers from the FSO General Reserve to the IFF account

4.14 In order to achieve the desired level of IFF assisted ordinary capital lending, it will be necessary, in addition to the already scheduled transfers agreed on for the Sixth and Seventh Replenishments, to make yearly transfers in convertible currencies as needed to fulfill the obligations arising from the lending program. The transfers would be made from the FSO General Reserve to the IFF account in the necessary amounts.

F. Currencies

4.15 All of the contributions to the FSO are to be made in freely convertible currencies. Each member will make its contribution in one of 17 specified convertible currencies or express their contributions in SDR or ECU, with payment in one of the specified currencies, based on the average exchange rates between the dollar, and the selected currencies, the SDR, or the ECU, for the 180 calendar-day period ending on April 10, 1994. Members are to designate in advance the currency to be used in making their contributions. 6/ The 17 convertible currencies and their average rates of exchange against the U.S. dollar for the 180 calendar-day period ending on April 10, 1994, and the value of the SDR and the ECU in terms of the U.S. dollar on the same basis are as follows:

6/ Members will have to specify the unit of obligation at the latest when they submit their Instrument of Contribution.

Currency	Average exchange rate*
Austrian schilling	12.0159
Belgian franc	35.7512
British pound sterling	0.6726
Canadian dollar	1.3358
Danish krone	6.7183
Finnish markka	5.6705
French franc	5.8562
Deutsche mark	1.7081
Italian lira	1,671.1559
Japanese yen	107.8776
Netherlands guilder	1.9160
Norwegian krone	7.4054
Portuguese escudo	174.3266
Spanish peseta	139.2836
Swedish krona	8.1116
Swiss franc	1.4615
U.S. dollar	1.0000
SDR	0.7198
ECU	0.8855

* Source: IMF, except for the ECU which is the rate published by the *Wall Street Journal*. These are average rates calculated on the basis of 180 days, from October 13, 1993 to April 10, 1994.

CHAPTER V

RECOMMENDED AMENDMENTS TO THE AGREEMENT ESTABLISHING THE BANK AND CERTAIN OTHER BASIC BANK DOCUMENTS

5.1 During the discussions held by the Committee of the Board of Governors in connection with an increase in the authorized capital stock and in the resources of the Fund for Special Operations, there was a consensus to: (i) alter the current voting powers of member countries, (ii) permit the nonregional countries to elect not less than three directors to the Board of Executive Directors and provide an additional chair for the regional developing members and (iii) implement certain new voting majorities to complement these changes. There is attached a proposed resolution, Annex D, that implements these changes. The proposed resolution includes the amendments to the Agreement Establishing the Bank (the "Agreement") and certain other basic documents of the Bank that require the approval of the Board of Governors. These basic documents include the Regulations of the Board of Governors and the General Rules Governing Admission of Nonregional Countries to Membership in the Bank ("General Rules"). Complementary amendments to the Regulations for the Election of the Executive Directors will also need to be approved by the Board of Governors, and a proposed resolution for such amendments shall be distributed at a later stage. 7/

5.2 Specifically, it is proposed that the voting percentages embodied in Article VIII, Section 4(b) of the Agreement and Section 7(b) of the General Rules be amended so that in the future, the voting power of the regional developing member countries could not be reduced below 50.005 percent of the total voting power, that of the member having the largest number of shares could not be reduced below 30 percent of the total voting power and that of Canada could not be reduced below 4 percent of the total voting power. This new structure reflects an increase in the maximum voting power corresponding to the nonregional member countries from the current 8 percent to 15.973 percent of total voting power. These changes in the voting powers of the respective member countries also include two new seats on the Board of Executive Directors. One new seat would be reserved for the nonregional members, and the second would be for the regional developing members. Lastly, it is further proposed to amend certain of the existing voting majorities which are required by the Agreement to implement the new voting power of member countries as indicated above.

7/ Subsequent to the approval of the proposed resolution, the Committee of the Board of Governors shall amend its Rules of Procedure, and the Board of Executive Directors shall amend its Regulations, to complement the proposed amendments.

5.3 Section 1 of the proposed resolution, Annex D, contains the amendments to the Agreement that would be required to reflect the changes proposed above. Section 2 of the proposed resolution contains the proposed amendment of Section 1 of the Regulations of the Board of Governors to reflect the new percentage of total voting power that is required for a quorum for any meeting of the Board of Governors. Section 3 of the proposed resolution provides for the amendment of Sections 7, 8 and 9 of the General Rules to reflect the new number of Executive Directors that would be elected by the regional developing and nonregional member countries.

5.4 As more fully discussed in the "Statement of Management in Connection with the Eighth General Increase in the Resources of the Bank" submitted to the Board of Executive Directors at its meeting of July 15, 1994, and incorporated into the Minutes of said meeting, if the proposed resolution, Annex D, and its provisions have not become effective by December 31, 1995, the Board of Governors shall, at its Annual Meeting in 1996, decide upon the appropriate measures to fully implement the agreement reached in this replenishment, on the basis of recommendations of the Committee of the Board of Governors.

CHAPTER VI

RECOMMENDED PROCEDURES FOR IMPLEMENTATION OF EIGHTH GENERAL INCREASE OF RESOURCES

6.1 The foregoing analysis shows that, in order for the Bank to maintain an appropriate level of lending operations, action should be taken by the Board of Governors as soon as possible to increase the Bank's capital resources and the Fund for Special Operations (FSO) and to allocate additional resources to the Intermediate Financing Facility.

6.2 In order to permit the Bank to utilize its capital resources to meet future loan program needs in a timely manner, it is contemplated that the increase of both paid-in and callable capital would become effective in six equal annual installments on December 31 in each of the years 1994 through 1999. It is proposed that 2.5 percent of the contemplated subscribed US$40 billion capital increase be in the form of paid-in capital and 97.5 percent be in the form of callable capital. It is proposed that there also be an increase in the Fund for Special Operations in the equivalent of US$1 billion with the additional contributions by the member countries becoming effective as set forth in paragraph 4.11 of Chapter IV. It is also proposed that additional transfers of the Fund for Special Operations be made to the Intermediate Financing Facility (IFF) sufficient to support the annual levels of IFF financing determined by the Board of Executive Directors. Finally, it is proposed that a Technical Cooperation Fund ("FONTEC") be established for the purpose of attracting and making efficient use of a larger volume of financial resources for nonreimbursable technical cooperation.

1. APPLICABLE PROVISIONS OF THE AGREEMENT AND THE GENERAL RULES

6.3 The provisions of the Agreement and of the General Rules which concern increases in the capital resources and in the Fund for Special Operations, and which concern additional transfers to the Intermediate Financing Facility, may be summarized as follows:

A. Capital resources

6.4 Article II, Section 2(e), of the Agreement provides that the authorized ordinary capital stock may be increased when the Board of Governors deems it advisable and in a manner agreed upon by a three-fourths majority of the total voting power of the member countries, including a three-fourths majority of the total number of Governors, which includes a two-thirds majority of the Governors of regional members.

6.5 Article II, Section 3(b) of the Agreement provides that in case of an increase in the capital pursuant to Article II, Section 2(e), each member shall have a right to subscribe, under such conditions as the Bank shall determine, to a proportion of the increase of stock equivalent to the proportion which its stock theretofore subscribed bears to the total capital stock of the Bank, but no member shall be obligated to subscribe to any part of such increased capital. In other words, a member may waive its right to subscribe to its proportionate share of a capital increase.

6.6 Article VIII, Section 4(b) of the Agreement, and Section 7(b) of the General Rules, provide that no increase in the subscription of any member to the capital stock shall become effective, and any right to subscribe thereto is waived, which would have the effect of reducing the voting power: (i) of the regional developing members below 53.5 percent; (ii) of the United States below 34.5 percent; or (iii) of Canada below 4 percent. Section 7(b) of the General Rules provides that, notwithstanding the foregoing provisions, any resolution of the Board of Governors for a capital increase shall specify that: (1) in order to prevent the voting power of the regional developing members as a group from falling below 53.5 percent, any member of the group may subscribe to shares allocated to another member of the group if the latter member does not wish to subscribe to such shares; (2) the provision relating to percentages of voting power may be waived by the regional developing members as a group with respect to their 53.5 percent, and by the United States and Canada with respect to their 34.5 percent and 4 percent, respectively; and (3) any member of the group of nonregional members may subscribe to shares allocated to another member of the group if the latter member does not wish to subscribe to such shares.

6.7 To fully implement the increase of capital resources, the provisions specified in 6.5 above will need to be waived to the extent that some members do not subscribe to their current proportionate share. Similarly, the provisions with respect to minimum voting power specified in 6.6 will need to be waived to the extent that the voting power of the regional developing members and the United States may fall below 53.5 percent and 34.5 percent, respectively, of total voting power prior to the approval of the proposed resolution, Annex D, which will modify these percentages.

B. Fund for Special Operations

6.8 Article IV, Section 3(g), of the Agreement specifies that the resources of the Fund shall be increased through additional contributions by the members when the Board of Governors considers it advisable by a three-fourths majority of the total voting power of the member countries. As with increases to the Bank's ordinary capital, each member has the right to contribute to a proportion of the increase in the Fund for Special Operations equivalent to the

proportion between the quota in effect for such member and the total amount of the resources of the Fund contributed by members. No member, however, shall be obligated to contribute any part of such increase. Therefore, a member may waive its right to contribute to its proportionate share of an increase in the Fund.

C. Intermediate Financing Facility

6.9 The proposed resolution, Annex C, authorizing the transfer of additional resources of the Fund for Special Operations for the Intermediate Financing Facility could be approved by a majority of the total voting power of the member countries in the same manner as Resolution AG-12/83 creating the IFF, and Resolution AG-3/90 transferring additional resources to the IFF, were approved. These majorities are established in Article VIII, Section 4(c), of the Agreement, which specifies that, except as otherwise specifically provided in the Agreement, all matters before the Board of Governors shall be decided by a majority of the total voting power of the member countries.

2. TECHNICAL COOPERATION FUND

6.10 The proposed resolution, Annex E, authorizing creation of an independent account to be known as the Technical Cooperation Fund Account ("FONTEC"), may be approved pursuant to the provisions of Article VIII, Section 4(c) of the Agreement, which specifies, as is more fully explained in paragraph 6.9 above, that the proposed resolution must be approved by a majority of the total voting power of the member countries.

3. DECISION-MAKING PROCEDURES

6.11 The Governors have agreed that the amendments to Part III, Section 2 of the Regulations of the Board of Executive Directors, which were approved in connection with the Seventh General Increase in Resources, would continue to be in effect with respect to the lending program of the Eighth Replenishment, with the amendment noted as follows. The additional delay periods permitted under the Seventh General Increase will be shortened so that one Executive Director can delay ordinary capital loans in the Committee of the Whole for one month, and thereafter two or more Executive Directors can delay ordinary capital loans in the Committee of the Whole for two additional months. Further delay would not be permitted.

6.12 Subsequent to the approval of this report, the Board of Executive Directors shall take the necessary steps to amend its regulations as provided in paragraph 6.11, above. Amendments to the Regulations of the Board of Executive Directors are approved by a majority of the total voting power of the member countries pursuant to Article VIII, Section 4(d)(iii), of the Agreement, which specifies that, except as otherwise specifically provided in the

Agreement, all matters before the Board of Executive Directors shall be decided by a majority of the total voting power of the member countries.

4. AMENDMENTS TO THE AGREEMENT ESTABLISHING THE BANK AND OTHER BASIC BANK DOCUMENTS

6.13 As indicated in Chapter V above, the Committee of the Board of Governors has also reached consensus in proposing to the Board of Governors amendments to the Agreement and to certain other basic documents of the Bank so as to (i) alter the current voting structure of member countries, (ii) permit the nonregional countries to elect not less than three Directors to the Board of Executive Directors and provide an additional chair for the regional member countries, and (iii) implement certain new voting majorities to complement these changes. Accordingly, a proposed resolution, Annex D, is attached that includes amendments to the Agreement, the Regulations of the Board of Governors, and the General Rules that are necessary to effect these changes. Complementary amendments to the Regulations for the Election of the Executive Directors must also be approved by the Board of Governors. A proposed resolution for these amendments will be distributed at a later stage. 8/

6.14 Amendments to the Agreement are generally approved by a majority of the total number of Governors, including two-thirds of the Governors of regional members, representing not less than three-fourths of the total voting power of the member countries pursuant to Article XII, Section (a). In addition, in accordance with Section 7(a)(i)(2) of the General Rules, any amendment of the Agreement which changes the number of Executive Directors to be elected by the nonregional member countries must be approved by a two-thirds majority of the total number of nonregional Governors representing not less than three fourths of the total voting power of the nonregional member countries. Amendments of the Regulations of the Board of Governors are approved by a majority of the total voting power of the member countries pursuant to Section VI of said regulations. Amendments of the General Rules are approved by a two-thirds majority of the total number of Governors, including two-thirds of the Governors of nonregional members, representing not less than three-fourths of the total voting power of the member countries pursuant to Article II, Section 1(b) and Article XII, Section (a) of the Agreement and Section 7(a)(i) of the General Rules.

8/ Subsequent to the approval of the proposed resolution, the Committee of the Board of Governors shall amend its Rules of Procedure and the Board of Executive Directors shall amend its Regulations to complement the proposed amendments.

5. WAIVERS REQUIRED

Waiver of preemptive rights

6.15 In order to implement the specific changes in the capital structure of the Bank, it will be necessary to obtain waivers from those members whose proposed subscriptions are less than their current proportionate share. In order to obtain the needed waivers, a simplified procedure will be adopted. Specifically, each member shall be deemed to have waived any rights it has under Article II, Section 3(b) and/or Article IV, Section 3(g) upon the effective date of the resolution approving this report, unless it specifically notifies the Bank to the contrary in writing by June 30, 1994.

Waiver of minimum shareholdings

6.16 The minimum shareholding percentages set forth in paragraph 6.6 above would prevent the proposed changes in shareholding outlined in paragraph 5.2 above from taking place until Article VIII, Section 4(b) of the Agreement, and Section 7 of the General Rules, are amended or appropriate waivers are obtained from the regional developing members and the United States.

6.17 Under the proposed schedule for subscriptions, the voting power of the regional developing member countries as a group and the United States will drop below 53.5 percent and 34.5 percent, respectively, once the first subscription is completed, which is expected to be December 31, 1994. It is unlikely that the proposed amendments to the Agreement and to the General Rules will be effective by that date while the current minimum shareholding percentages will continue to be in effect. Therefore, the Agreement would require the Bank to defer acceptance of shares from other members, or obtain a waiver from the regional developing members as a group and the United States for the first installment to be effective. The same situation would arise for any subsequent installment which was completed prior to the effective date of the amendments to Article VIII, Section 4(b) of the Agreement, and Section 7 of the General Rules. To minimize the need to defer acceptance of shares, the regional developing member countries as a group and the United States would be deemed to have waived their minimum shareholding rights upon the effective date of the resolution approving this report, unless a member notifies the Bank otherwise in writing by June 30, 1994.

6. RESOLUTIONS PROPOSED

6.18 Accordingly, to implement the Eighth General Increase in the Resources of the Bank, it is recommended that the Board of Governors adopt the following three attached proposed resolutions:

Annex A: Increase of US$40 billion in the Authorized Capital Stock and Subscriptions Thereto.

Annex B: Increase in the Resources of the Fund for Special Operations and Contributions Thereto.

Annex C: Transfer of Additional Resources to the Intermediate Financing Facility Account.

6.19 Further, to implement the amendments to the Agreement and to certain other basic documents of the Bank referred to in Chapter V, it is recommended that the Board of Governors adopt the proposed resolution attached as Annex D. Also, to establish the proposed Technical Cooperation Fund, it is recommended that the Board of Governors adopt the proposed resolution attached as Annex E.

7. PROCEDURES FOR VOTING

6.20 After its adoption by the Committee of the Board of Governors, this Report (to which the proposed resolutions noted in the preceding paragraphs 6.18 and 6.19 are attached) will be presented to the Board of Governors for approval by mail vote, as established in Section 5 of the By-Laws of the Bank. The Board of Governors will be requested to approve this report by adopting the proposed resolution submitted therewith and entitled "Report on the Eighth General Increase in the Resources of the Inter-American Development Bank". This Resolution approves the Report and recommends that the members take such action as may be necessary and appropriate to give effect to the proposed resolutions described above.

6.21 Subsequently, the proposed resolutions in Annexes A, B, C, D, and E would be voted upon by the Board of Governors by mail vote. To be valid the votes on the proposed resolutions in Annexes A, B and C must be received at the headquarters of the Bank no later than October 31, 1994, or by such later date as the Board of Executive Directors shall determine.

8. SPECIFIC ACTIONS REQUIRED AFTER ADOPTION OF THE PROPOSED RESOLUTIONS

6.22 If the proposed resolutions on the Eighth General Increase are adopted, then the following initial actions by each subscribing member are required by the dates indicated:

A. Capital increase

By October 31, 1994:

(i) Deposit of an appropriate instrument agreeing to subscribe to the respective number of shares of paid-in and callable capital stock, in accordance with the terms of the pertinent resolution.

By December 31, 1994:

(ii) Subscription of the first installment of the callable capital.

(iii) Subscription of the first installment of the paid-in capital and arrangements for payment thereof within 30 days.

B. Fund for Special Operations increase

By October 31, 1994:

(i) Deposit of an appropriate instrument agreeing to the making of the respective contribution to the increase in accordance with the terms of the pertinent resolution.

By December 31, 1994:

(ii) Arrangements for payments of the first installment of the increase within 30 days.

6.23 The subscriptions to and payments by the members of these increases and contributions and their corresponding encashments in the following years are detailed in the respective resolutions.

PROPOSED RESOLUTION

INCREASE OF US$40 BILLION IN THE AUTHORIZED CAPITAL STOCK AND SUBSCRIPTIONS THERETO

WHEREAS the Committee of the Board of Governors has studied the possibility of enlarging the resources of the Inter-American Development Bank (the "Bank") by means of increases in its authorized capital stock and in the resources of the Fund for Special Operations and through additional contributions to the Intermediate Financing Facility, and has presented a report and appropriate recommendations thereon to the Board of Governors;

WHEREAS the Board of Governors has concluded that action to increase the authorized capital stock of the Bank would be desirable;

WHEREAS Article II, Section 2(e), of the Agreement Establishing the Bank, provides for increases in the capital stock of the Bank; and

WHEREAS the regional developing member countries as a group, and the United States, pursuant to Section 7(b) of the General Rules Governing Admission of Nonregional Countries to Membership in the Bank, have waived, on a limited basis, their minimum shareholding rights under Article VIII, Section 4(b) of the Agreement Establishing the Bank;

The Board of Governors

RESOLVES THAT:

Section 1. Increase in the authorized capital

(a) Subject to the provisions of paragraph (b) hereof, the authorized capital stock of the Bank shall be increased by US$40,000,001,466, divided into 3,315,806 shares, each having a par value as provided in the Agreement Establishing the Bank.

(b) Such increase shall become effective only if, on or before October 31, 1994, or such later date as the Board of Executive Directors shall determine, member countries shall have deposited with the Bank an appropriate instrument, by which they agree, subject to such legal requirements as may be appropriate in the respective countries, to subscribe to at least 2,486,855 shares of the increase of authorized capital stock in accordance with Section 2 of this resolution.

Section 2. Subscriptions

(a) In accordance with Article II, Section 3(b), of the Agreement Establishing the Bank, each member may subscribe to the respective number of shares as follows:

Member country	Paid-in shares	Callable shares	Total shares	Total subscriptions expressed in millions of United States dollars 1/
Regional members				
Argentina	6,720	307,904	314,624	3,795.45
Bahamas	0	6,081	6,081	73.36
Barbados	0	3,763	3,763	45.39
Belize	0	3,208	3,208	38.70
Bolivia	540	24,716	25,256	304.67
Brazil	6,720	307,904	314,624	3,795.45
Canada	2,015	111,714	113,729	1,371.96
Chile	1,851	84,538	86,389	1,042.15
Colombia	1,853	84,651	86,504	1,043.53
Costa Rica	269	12,356	12,625	152.30
Dominican Republic	361	16,493	16,854	203.32
Ecuador	361	16,493	16,854	203.32
El Salvador	269	12,356	12,625	152.30
Guatemala	361	16,493	16,854	203.32
Guyana	0	4,681	4,681	56.47
Haiti	269	12,356	12,625	152.30
Honduras	269	12,356	12,625	152.30
Jamaica	361	16,493	16,854	203.32
Mexico	4,316	197,929	202,245	2,439.77
Nicaragua	269	12,356	12,625	152.30
Panama	269	12,356	12,625	152.30
Paraguay	269	12,356	12,625	152.30
Peru	889	41,094	41,983	506.46
Suriname	0	2,566	2,566	30.95
Trinidad and Tobago	269	12,356	12,625	152.30
United States	12,738	747,906	760,644	9,175.98
Uruguay	718	33,013	33,731	406.91
Venezuela	2,997	165,566	168,563	2,033.45
Total regional members	44,953	2,292,054	2,337,007	28,192.33
Nonregional members				
Austria	355	8,958	9,313	112.35
Belgium	653	17,309	17,962	216.68
Croatia	111	2,765	2,876	34.69
Denmark	375	9,523	9,898	119.40
Finland	355	8,958	9,313	112.35
France	4,166	105,793	109,959	1,326.48
Germany	4,105	104,675	108,780	1,312.26
Israel	348	8,836	9,184	110.79
Italy	4,166	105,793	109,959	1,326.48
Japan	15,041	349,298	364,339	4,395.18
Netherlands	813	19,993	20,806	250.99
Norway	375	9,523	9,898	119.40
Portugal	126	3,066	3,192	38.51
Slovenia	69	1,710	1,779	21.46
Spain	4,166	105,793	109,959	1,326.48
Sweden	714	18,264	18,978	228.94
Switzerland	1,104	27,373	28,477	343.53
United Kingdom	809	31,063	31,872	384.49
Total nonregional members	37,851	938,693	976,544	11,780.47
Subtotal	82,804	3,230,747	3,313,551	39,972.80
Unassigned 2/	94	2,161	2,255	27.20
GRAND TOTAL	82,898	3,232,908	3,315,806	40,000.00

1/ Translated into current United States dollars at the rate of US$12,063.43238 per share pursuant to provisions of the Agreement Establishing the Bank that each share of the Bank's capital stock shall have a par value of $10,000 expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1959. The General Counsel of the Bank has rendered an opinion that since the effectiveness on April 1, 1978 of the Second Amendment to the Articles of Agreement of the International Monetary Fund, which eliminated par values of currencies in terms of gold, the Special Drawing Right (SDR) has become the successor to the 1959 U.S. dollar as the standard unit of value of the Bank's capital stock. The Bank's governing boards have not yet made a decision on this matter.

2/ Unassigned in order to provide for possible membership of the Republic of Bosnia and Herzegovina and the Federal Republic of Yugoslavia.

(b) Each subscribing member shall represent to the Bank that it has taken all necessary action to authorize its subscription and shall furnish to the Bank such information thereon as the latter may request.

(c) The subscription of each member to the additional paid-in capital stock shall be on the following terms and conditions:

(i) The subscription price per share shall be the par value of each share as provided in the Agreement Establishing the Bank.

(ii) The subscriptions of members to paid-in capital stock shall be in six equal installments, effective, respectively, on December 31 in each of the years 1994 through 1999, or such later dates as the Board of Executive Directors shall determine, and payments for each installment are due within 30 days of the respective effective dates established hereunder.

(iii) The subscription of each member to the paid-in capital stock shall be paid entirely in the currency of the respective member which shall make arrangements satisfactory to the Bank to assure that its respective currency so paid to the Bank shall be freely convertible into the currencies of other countries for the purposes of the Bank's operations, or shall agree to convert on behalf of the Bank its respective currency so paid into the currencies of other countries for the purposes of the Bank's operations. The entire paid-in subscriptions shall be subject to the provisions of Article V, Section 1(b)(i), of the Agreement Establishing the Bank.

(iv) The Bank may accept non-negotiable, non-interest-bearing promissory notes or similar securities in the form contemplated in Article V, Section 4, of the Agreement Establishing the Bank, in lieu of the immediate payment of all or any part of a member's subscription to the paid-in capital stock. Each promissory note or security shall be redeemed in five equal annual encashments over the 1994-2003 period.

(d) The subscription of each member to the additional callable capital stock shall be on the following terms and conditions:

(i) The subscription price per share shall be the par value of each share as provided in the Agreement Establishing the Bank.

(ii) The subscriptions of members to the callable capital stock shall be in six equal installments, effective, respectively, on December 31 in each of the years 1994

through 1999, or such later dates as the Board of Executive Directors shall determine.

Section 3. Voting power

The provisions of Section 7(b) of the General Rules Governing Admission of Nonregional Countries to Membership in the Bank shall apply to the capital increase provided for in this resolution, with the same force and effect as if fully set forth herein.

PROPOSED RESOLUTION

INCREASE IN THE RESOURCES OF THE FUND FOR SPECIAL OPERATIONS AND CONTRIBUTIONS THERETO

WHEREAS the Committee of the Board of Governors has studied the possibility of enlarging the resources of the Inter-American Development Bank (the "Bank") by means of increases in its authorized capital stock and in the resources of the Fund for Special Operations and through additional contributions to the Intermediate Financing Facility, and has presented a report and appropriate recommendations thereon to the Board of Governors;

WHEREAS the Board of Governors has concluded that action to increase the resources of the Fund for Special Operations would be desirable; and

WHEREAS Article IV, Section 3(g), of the Agreement Establishing the Bank provides for increases in the resources of the Fund for Special Operations through additional contributions by the members;

The Board of Governors

RESOLVES THAT:

Section 1. Increase in the resources of the Fund

Subject to the provisions of this resolution, the resources of the Fund for Special Operations shall be increased through additional contributions by the members in the form of Basic Contributions, Supplemental Contributions, and Special Contributions (referred to individually or collectively as a "Contribution" or "Contributions") in amounts not less than those indicated for the respective members, in terms of the applicable units of obligation, in Tables I and II attached to this resolution.

Section 2. Instrument of Contribution

(a) To make a Contribution under this resolution, the member shall deposit with the Bank an Instrument of Contribution formally confirming the member's intention to contribute and specifying the applicable unit of obligation and the amount of its contribution in the applicable unit of obligation as set forth in Table I attached to this resolution.

(b) Subject to the provisions of Section 2(c) below, the Instrument of Contribution shall constitute an unqualified commitment by the member to the Bank to make payment of the Contribution in the manner and on the terms set forth in or contemplated by this resolution. For the purposes of this resolution, a Contribution

covered by such an Instrument shall be called an Unqualified Contribution.

(c) As an exceptional case, where an Unqualified Contribution commitment cannot be given by a member due to its legislative practice, the Bank may accept from that member an Instrument of Contribution which contains the qualification that payment of all installments of the Contribution is subject to subsequent budgetary appropriations. Such an Instrument, however, shall include an undertaking to seek the necessary appropriations, at the rate specified in Section 5(b) below, during the period of the increase and to notify the Bank as soon as each such appropriation is obtained. For the purposes of this resolution, a Contribution covered by such an Instrument shall be called a Qualified Contribution, and it shall be deemed to be Unqualified to the extent that appropriations have been obtained.

Section 3. Entry into effect

(a) None of the Contributions shall become payable unless on or before October 31, 1994, or such later date as the Board of Executive Directors shall determine, member countries shall have deposited with the Bank Instruments of Contribution representing Unqualified and Qualified Contributions totalling not less than the equivalent of US$648 million of the increase in the Fund for Special Operations.

(b) Instruments of Contribution deposited on or before the effective date of the increase shall take effect on that date, and Instruments of Contribution deposited after such date shall take effect on their respective dates of deposit.

Section 4. Contributions

(a) Each member shall make its Contributions in one of the freely convertible currencies designated by the Bank for the purposes of this resolution.

(b) The Basic Contributions shall be made in four equal installments, which shall be effective, respectively, on December 31 in each of the years 1994 through 1997, or such later dates as the Board of Executive Directors shall determine. Supplemental and Special Contributions shall be made in six equal installments which shall be effective, respectively, on December 31 in each of the years 1994-1999, or such later dates as the Board of Executive Directors shall determine. Payments for each installment of the Unqualified Contributions are due within 30 days of the respective effective dates established hereunder. Payments in respect of a Qualified Contribution shall be made within 30 days as and to the extent that each installment has become Unqualified and should be made on the respective annual

payment dates specified in the foregoing provisions of this paragraph.

(c) The Bank may accept non-negotiable non-interest-bearing promissory notes or similar securities in the form contemplated in Article V, Section 4, of the Agreement Establishing the Bank, in lieu of the immediate payment of all or any part of a member's Contribution to each installment. Such promissory notes or securities shall be encashed by the Bank in accordance with the terms of the Fund for Special Operations encashment schedule set forth in paragraphs 4.11 and 4.12 of Document AB-1704.

(d) The payments of each member shall total the amount, in terms of the applicable unit of obligation, as indicated for the respective member in Table I attached to this resolution.

(e) Currencies of all the members held by the Bank which are derived from these additional contributions shall not be subject to the maintenance of value provisions of Article V, Section 3, of the Agreement Establishing the Bank.

(f) Notwithstanding the foregoing provisions of Section 4, no member shall be obligated to make any payment in respect of its Basic Contribution except to the extent that its contribution has become available for loan commitments as specified in Section 5 below.

(g) In the period beginning on the sixth year after the effective date of the replenishment agreement and ending on December 31, 2004, the Bank will, by periodic transfers from the Ordinary Capital net income, consistent with prudent financial management, make up any shortfall in the unallocated special contributions existing during that period which is not covered by member country contributions pursuant to the agreements set out in the footnotes to the table contained in paragraph 4.11 of Chapter IV of Document AB-1704.

Section 5. Conditions for loan commitment

(a) For the purpose of loan commitments by the Bank, each Unqualified Contribution shall be divided into four equal tranches and, subject to Section 4(b) and Section 6 hereof, shall become available for loan commitments as follows:

(i) the first tranche: as from December 31, 1994 or on such subsequent date the relevant Instrument of Contribution takes effect;

(ii) the second tranche: as from December 31, 1995;

(iii) the third tranche: as from December 31, 1996; and

(iv) the fourth tranche: as from December 31, 1997;

(b) Each Qualified Contribution (unless it has become unqualified as scheduled) shall become available for loan commitments as and to the extent that is has become unqualified, which should occur at the rate of one-fourth of its total amount in each of the four years covered by the increase on the dates provided for pursuant to Section 4(b) hereof.

Section 6. Limiting commitments

If there are Qualified Contributions to the Basic Contribution which have not been made unqualified at the rate, to the extent and on the dates specified in Section 5(b) above with respect to the second, third and fourth installments, the Bank shall promptly notify all member countries, and member countries which have made Unqualified Contributions, or whose Qualified Contributions have become unqualified at the rate, to the extent and on the dates specified in Section 5(b) above may, after consultation with the Board of Executive Directors of the Bank, notify the Bank in writing that the Bank should refrain from making loan commitments against their Basic Contributions to the respective installment. The maximum amount of such reduced loan commitments shall be in proportion to the extent that the respective installment of the relevant Qualified Contribution has not become unqualified.

Section 7. Meeting of member countries

If, in the course of the increase in the resources of the Fund for Special Operations, delays or readjustments in the making of contributions or their availability for loan commitments prevent, or appear likely to prevent, the substantial attainment of the goals of the increase, the Bank will convene a meeting of representatives of the member countries to review the situation and consider ways of obtaining the necessary contributions.

TABLE I — CONTRIBUTIONS TO THE INCREASE OF THE FUND FOR SPECIAL OPERATIONS 1/

Member Country	Unit of obligation	Amount in units of obligation	US$ equivalent	SDR equivalent 2/	ECU equivalent 2/
Regional borrowers					
Argentina			13,390,720	9,638,640	11,857,483
Bahamas			304,335	219,060	269,489
Barbados			41,286	29,718	36,559
Belize			212,326	152,832	188,015
Bolivia			1,092,301	786,238	967,233
Brazil			13,390,720	9,638,640	11,857,483
Chile			3,762,896	2,708,533	3,332,044
Colombia			3,762,896	2,708,533	3,332,044
Costa Rica			539,073	388,025	477,349
Dominican Republic			732,526	527,272	648,652
Ecuador			732,526	527,272	648,652
El Salvador			539,073	388,025	477,349
Guatemala			732,526	527,272	648,652
Guyana			234,739	168,965	207,861
Haiti			539,073	388,025	477,349
Honduras			539,073	388,025	477,349
Jamaica			732,526	527,272	648,652
Mexico			9,374,212	6,747,558	8,300,865
Nicaragua			539,073	388,025	477,349
Panama			539,073	388,025	477,349
Paraguay			539,073	388,025	477,349
Peru			1,853,139	1,333,889	1,640,955
Suriname			179,298	129,059	158,768
Trinidad and Tobago			539,073	388,025	477,349
Uruguay			1,466,232	1,055,394	1,298,348
Venezuela			9,374,212	6,747,558	8,300,865
Unallocated 3/			40,000,000	28,792,000	35,420,000
Subtotal			105,682,000	76,069,904	93,581,411
Regional nonborrowers					
Canada			20,069,000	14,445,666	17,771,100
United States			82,304,000	59,242,419	72,880,192
Total regional members			208,055,000	149,757,989	184,232,703
Nonregional members					
Austria			4,710,166	3,390,377	4,170,852
Belgium			8,710,127	6,269,549	7,712,817
Croatia			1,478,881	1,064,499	1,309,549
Denmark			4,995,795	3,595,973	4,423,776
Finland			4,710,166	3,390,377	4,170,852
France			53,967,910	38,846,102	47,788,584
Germany			54,971,737	39,568,656	48,677,473
Israel			4,648,431	3,345,941	4,116,186
Italy			55,967,910	40,285,702	49,559,584
Japan			395,926,570	284,987,945	350,592,978
Netherlands			10,925,790	7,864,384	9,674,787
Norway			4,995,795	3,595,973	4,423,776
Portugal			1,633,817	1,176,021	1,446,745
Slovenia			946,307	681,152	837,955
Spain			54,467,910	39,206,002	48,231,334
Sweden			9,612,116	6,918,801	8,511,529
Switzerland			14,740,588	10,610,275	13,052,791
United Kingdom			7,401,000	5,327,240	6,553,585
Pending 4/			1,138,720	819,651	1,008,337
Additional unallocated 5/			96,000,000	69,100,800	85,008,000
Total nonregional members			791,949,736	570,045,420	701,271,491
GRAND TOTAL			1,000,004,736	719,803,409	885,504,194

1/ The amount in units of obligation is based on the average exchange rates between the U.S. dollar, the SDR or the ECU for the 180 calendar day period ending April 10, 1994 based on IMF representative exchange rates and the SDR value of currencies published by the IMF, or the ECU value of currencies published by the *Wall Street Journal*.

2/ Rounded to the nearest unit.

3/ To be paid at the time of and in equal proportions to future contributions to the US$96 million Unallocated Special Contributions within six years of the effective date of the Replenishment by contributions from regional countries. Any remaining gap in the unallocated portion of the Special Contributions six years after the effective date of the Replenishment will be covered by transfers from the net income of the Ordinary Capital.

4/ Amount which must be contributed by those nonregional member(s) wishing to subscribe the 2,255 unallocated OC shares, in case Bosnia and Herzegovina and the Federal Republic of Yugoslavia do not join the Bank. Should they join, this amount will not be contributed to the FSO-8, but Bosnia and Herzegovina and the Federal Republic of Yugoslavia would be expected to contribute US$282,000 to the Basic FSO-8 Increase.

5/ Additional unallocated special contributions to be paid within six years of the effective date of the Replenishment by contributions from nonregional countries. Any remaining gap in the unallocated portion of the Special Contributions six years after the effective date of the Replenishment will be covered by transfers from the net income of the Ordinary Capital.

NOTE: Those members who have not specified their unit of obligation as indicated in the above table shall do so at the latest when they submit their Instrument of Contribution.

Table II — Basic, supplemental, and special FSO contributions (US$ equivalent)

Member country	Basic	Supplemental	Special	Total FSO contributions
Regional borrowers				
Argentina	11,352,000		2,038,720	13,390,720
Bahamas	258,000		46,335	304,335
Barbados	35,000		6,286	41,286
Belize	180,000		32,326	212,326
Bolivia	926,000		166,301	1,092,301
Brazil	11,352,000		2,038,720	13,390,720
Chile	3,190,000		572,896	3,762,896
Colombia	3,190,000		572,896	3,762,896
Costa Rica	457,000		82,073	539,073
Dominican Republic	621,000		111,526	732,526
Ecuador	621,000		111,526	732,526
El Salvador	457,000		82,073	539,073
Guatemala	621,000		111,526	732,526
Guyana	199,000		35,739	234,739
Haiti	457,000		82,073	539,073
Honduras	457,000		82,073	539,073
Jamaica	621,000		111,526	732,526
Mexico	7,947,000		1,427,212	9,374,212
Nicaragua	457,000		82,073	539,073
Panama	457,000		82,073	539,073
Paraguay	457,000		82,073	539,073
Peru	1,571,000		282,139	1,853,139
Suriname	152,000		27,298	179,298
Trinidad and Tobago	457,000		82,073	539,073
Uruguay	1,243,000		223,232	1,466,232
Venezuela	7,947,000		1,427,212	9,374,212
Unallocated 1/	-		40,000,000	40,000,000
Subtotal regional borrowers	55,682,000		50,000,000	105,682,000
Regional nonborrowers				
Canada	11,069,000		9,000,000	20,069,000
United States	82,304,000			82,304,000
Total regional members	149,055,000		59,000,000	208,055,000
Nonregional				
Austria	566,000	3,944,166	200,000	4,710,166
Belgium	1,343,000	6,967,127	400,000	8,710,127
Croatia	161,000	1,217,881	100,000	1,478,881
Denmark	604,000	4,191,795	200,000	4,995,795
Finland	566,000	3,944,166	200,000	4,710,166
France	6,901,000	46,566,910	500,000	53,967,910
Germany	7,067,000	45,404,737	2,500,000	54,971,737
Israel	559,000	3,889,431	200,000	4,648,431
Italy	6,901,000	46,566,910	2,500,000	55,967,910
Japan	7,698,000	196,228,570	192,000,000	395,926,570
Netherlands	1,050,000	9,475,790	400,000	10,925,790
Norway	604,000	4,191,795	200,000	4,995,795
Portugal	182,000	1,351,817	100,000	1,633,817
Slovenia	93,000	753,307	100,000	946,307
Spain	6,901,000	46,566,910	1,000,000	54,467,910
Sweden	1,175,000	8,037,116	400,000	9,612,116
Switzerland	1,541,000	12,699,588	500,000	14,740,588
United Kingdom	6,901,000	-	500,000	7,401,000
Pending 2/	-	1,138,720	-	1,138,720
Additional unallocated 3/	-	-	96,000,000	96,000,000
Total nonregional members	50,813,000	443,136,736	298,000,000	791,949,736
GRAND TOTAL	199,868,000	443,136,736	357,000,000	1,000,004,736

1/ To be paid at the time of and in equal proportions to future contributions to the US$96 million Unallocated Special Contributions within six years of the effective date of the Replenishment by contributions from regional countries. Any remaining gap in the unallocated portion of the Special Contributions six years after the effective date of the Replenishment will be covered by transfers from the net income of the Ordinary Capital.

2/ Amount which must be contributed by those nonregional member(s) wishing to subscribe the 2,255 unallocated OC shares, in case Bosnia and Herzegovina and the Federal Republic of Yugoslavia do not join the Bank. Should they join, this amount will not be contributed to the FSO-8, but Bosnia and Herzegovina and the Federal Republic of Yugoslavia would be expected to contribute US$282,000 to the Basic FSO-8 Increase.

3/ Additional unallocated special contributions to be paid within six years of the effective date of the Replenishment by contributions from nonregional countries. Any remaining gap in the unallocated portion of the Special Contributions six years after the effective date of the Replenishment will be covered by transfers from the net income of the Ordinary Capital.

PROPOSED RESOLUTION

TRANSFER OF ADDITIONAL RESOURCES TO THE INTERMEDIATE FINANCING FACILITY ACCOUNT

WHEREAS the Committee of the Board of Governors has studied the possibility of enlarging the resources of the Inter-American Development Bank (the "Bank") by means of increases in its authorized capital stock and in the resources of the Fund for Special Operations and through additional contributions to the Intermediate Financing Facility, and has presented a report and appropriate recommendations thereon to the Board of Governors;

WHEREAS the Board of Governors has determined that Article IV, Section 10 of the Agreement Establishing the Bank includes the right of the Governors to distribute and to allocate to a separate account, by agreement of the members, assets of the General Reserve of the Fund for Special Operations which has been provided for from the net profits of such Fund;

WHEREAS, pursuant to Resolution AG-12/83 of December 12, 1983, entitled "Creation of an Intermediate Financing Facility", the Board of Governors approved the creation of an Intermediate Financing Facility for the Bank and pursuant to Resolution AG-3/90 of January 17, 1990, entitled "Transfer of Additional Resources to the Intermediate Financing Facility Account", the Board of Governors approved the transfer of additional resources to the Intermediate Financing Facility Account (the "Account"); and

WHEREAS the Board of Governors has concluded that further action to increase the resources of the Account would be desirable;

The Board of Governors

RESOLVES THAT:

Section 1 Additional resources

There shall be allocated annually to the Account in convertible currencies of the General Reserve of the Fund for Special Operations (the "Fund") an aggregate amount sufficient to support the annual levels of Intermediate Financing Facility financing determined by the Board of Executive Directors. These amounts shall be allocated annually to the Account by the Board of Governors at the time of the approval of the statements of profit and loss pursuant to Article VIII, Section 2(b)(viii) of the Agreement. The amounts referred to in this paragraph may be appropriately adjusted by the Board of Governors for appropriate reasons related to the funding of the Account. These amounts shall be in addition to the allocations to the Account being made from the General Reserve of the Fund pursuant to Resolutions AG-12/83 and AG-3/90.

Section 2 Provisions relating to the account

The provisions of Resolution AG-12/83 contained in Section 4. "Utilization of Resources", Section 5. "Administration of the Account", Section 6. "Termination of the Account" and Section 7. "Amendment", shall apply to the additional resources to be provided hereunder.

Section 3 Entry into force

This resolution shall enter into force only if, on or before October 31, 1994 or such later date as the Board of Executive Directors shall determine (a) the increase in the authorized capital stock and the resources of the Fund for Special Operations provided for in Document AB-1704 have come into effect and (b) votes in favor of this resolution have been received from member countries representing a majority of the total voting power of the member countries.

PROPOSED RESOLUTION

AMENDMENTS TO THE AGREEMENT ESTABLISHING THE INTER-AMERICAN DEVELOPMENT BANK, THE REGULATIONS OF THE BOARD OF GOVERNORS AND THE GENERAL RULES GOVERNING ADMISSION OF NONREGIONAL COUNTRIES TO MEMBERSHIP IN THE BANK

WHEREAS during the discussions held in connection with the Eighth General Increase in the Resources of the Bank the Board of Governors concluded that it would be desirable to amend certain provisions of the Agreement Establishing the Inter-American Development Bank and other basic Bank documents dealing with the respective voting powers of member countries, the representation of the regional developing and nonregional member countries in the Bank, and certain voting majorities; and

WHEREAS Article XII of the Agreement Establishing the Inter-American Development Bank provides for the process of amending the Agreement;

The Board of Governors

RESOLVES THAT:

Section 1. Amendments of the Agreement Establishing the Bank

The Agreement Establishing the Inter-American Development Bank shall be amended as follows:

1. Article III, Section 12 shall read:

"On all loans, participations, or guarantees made out of or by commitment of the ordinary capital resources of the Bank, the latter shall charge a special commission. The special commission, payable periodically, shall be computed on the amount outstanding on each loan, participation, or guarantee and shall be at the rate of one per cent per annum, unless the Bank, by a three-fourths majority of the total voting power of the member countries, decides to reduce the rate of commission."

2. Article IV, Section 9(b) shall read:

"(b) All decisions of the Bank concerning the operations of the Fund shall be adopted by a three-fourths majority of the total voting power of the member countries, unless otherwise provided in this article."

3. Article V, Section 1(e) shall read:

"(e) Gold or currency held by the Bank in its ordinary capital resources or in the resources of the Fund shall not be used by the Bank to purchase other currencies unless authorized by a three-fourths majority of the total voting power of the member countries. Any currencies purchased pursuant to the provisions of this paragraph shall not be subject to maintenance of value under Section 3 of this article."

4. Article VII, Section 1(iii) shall read:

"(iii) with the approval of a three-fourths majority of the total voting power of the member countries, invest funds not needed in its operations in such obligations as it may determine;"

5. Article VIII, Section 2(e) shall read:

"(e) A quorum for any meeting of the Board of Governors shall be an absolute majority of the total number of governors, including an absolute majority of the governors of regional members, representing not less than three-fourths of the total voting power of the member countries."

6. Article VIII, Section 3(b)(ii) shall read:

"(ii) One executive director shall be appointed by the member country having the largest number of shares in the Bank, not less than three executive directors shall be elected by the governors of the nonregional member countries, and not less than ten others shall be elected by the governors of the remaining member countries. The number of executive directors to be elected in these categories, and the procedure for the election of all the elective directors shall be determined by regulations adopted by the Board of Governors by a three-fourths majority of the total voting power of the member countries, including, with respect to provisions relating exclusively to the election of directors by nonregional member countries, a two-thirds majority of the governors of the nonregional members, and, with respect to provisions relating exclusively to the number and election of directors by the remaining member countries, by a two-thirds majority of the governors of regional members. Any change in the aforementioned regulations shall require the same majority of votes for its approval."

7. Article VIII, Section 3(c) shall read:

"(c) Each executive director shall appoint an alternate who shall have full power to act for him when he is not present. Directors and alternates shall be citizens of the member countries. None of the elected directors and their alternates may be of the same citizenship, except in the case of:

(i) countries that are not borrowers; and

(ii) borrowing member countries, in cases determined by the governors of the borrowing members pursuant to a three-quarters majority of their total voting power and a two-thirds majority of their total number.

Alternates may participate in meetings but may vote only when they are acting in place of their principals."

8. Article VIII, Section 4(b) shall read:

"(b) No increase in the subscription of any member to the ordinary capital stock shall become effective, and any right to subscribe thereto is hereby waived, which would have the effect of reducing the voting power (i) of the regional developing members below 50.005 per cent of the total voting power of the member countries; (ii) of the member having the largest number of shares below 30 per cent of such total voting power; or (iii) of Canada below 4 per cent of such total voting power."

Section 2. Amendment of Regulations of the Board of Governors

Section 1(d) of the Regulations of the Board of Governors shall read:

"(d) A quorum for any meeting of the Board of Governors shall be an absolute majority of the total number of Governors, including an absolute majority of the Governors of regional members, representing not less than three-fourths of the total voting power of the member countries."

Section 3. Amendments of General Rules Governing Admission of Nonregional Countries to Membership in the Bank

The General Rules Governing Admission of Nonregional Countries to Membership in the Bank shall be amended as follows:

1. Section 7(b) shall read:

"(b) No increase in the subscription of any member to the ordinary capital stock shall become effective, and any right to subscribe thereto is hereby waived, which would have the

effect of reducing the voting power (i) of the regional developing members below 50.005 per cent of the total voting power of the member countries; (ii) of the member having the largest number of shares below 30 per cent of such total voting power; or (iii) of Canada below 4 per cent of such total voting power, provided that, notwithstanding the foregoing provisions and the provisions of Article VIII, Section 4(b), of the Agreement Establishing the Bank, any resolution of the Board of Governors for an increase in the ordinary capital stock of the Bank shall specify that (1) in order to prevent the voting power of the regional developing members as a group from falling below the set percentage, any member of the group may subscribe to shares allocated to another member of the group if the latter member does not wish to subscribe to such shares; (2) the provision relating to percentages of voting power may be waived by the regional developing members as a group with respect to (i), and by the United States and Canada with respect to (ii) and (iii), respectively; and (3) any member of the group of nonregional members may subscribe to shares allocated to another member of the group if the latter member does not wish to subscribe to such shares."

2. Section 8 shall read:

"Since nonregional countries shall have the right to elect not less than three executive directors with their own votes as provided in Article VIII, Section 3(b)(ii), of the Agreement Establishing the Bank, as amended by the resolution referred to in Section 1(a) hereof, the Regulations for Election of Executive Directors, provided for in said Article of the Agreement, are amended to read as set forth in Annex I hereto. These amendments shall become effective on the same date as these General Rules enter into force."

3. Section 9 shall read:

"The agreement of a two-thirds majority of the total number of governors of nonregional members shall be required for the approval of an increase in the number of executive directors of the Bank beyond a total number of fourteen executive directors."

Section 4. Entry into force

This resolution and all the provisions thereof, including the foregoing amendments to the Agreement Establishing the Inter-American Development Bank, the Regulations of the Board of Governors and the General Rules Governing Admission of Nonregional Countries to Membership in the Bank shall enter into force on the date on which the official communication referred to in Article XII (c) of the Agreement Establishing the Inter-American Development Bank has been addressed to members certifying that this resolution has been adopted by the requisite majorities.

PROPOSED RESOLUTION

ESTABLISHMENT OF A TECHNICAL COOPERATION FUND

WHEREAS the Committee of the Board of Governors has given consideration to the possibility of establishing a Technical Cooperation Fund (hereinafter referred to as "FONTEC") and has submitted recommendations to that effect to the Board of Governors;

WHEREAS technical cooperation is a key component of the Bank's operations, affording as it does considerable support for project generation, institution-strengthening, and human-resources training through programs and projects that assist in efforts aimed at economic modernization, productive efficiency and social development;

WHEREAS the region's need for technical cooperation is more pressing now than ever, as economic and financial transformations unfold and countries face new challenges in the sphere of social and economic development;

WHEREAS the nonreimbursable technical-cooperation funding expected to be available in the future is not expected to keep pace with the demand for such assistance on the part of its regional borrowing member countries;

WHEREAS establishing a Technical Cooperation Fund would be the best means of attracting and making use of a larger volume of financial resources for technical cooperation, within a consolidated strategy framework with objectives and targets to coordinate and otherwise ensure the efficacy of this area of the Bank's activity; and

WHEREAS under the terms of Article VI, Section 3(b), of the Agreement Establishing the Bank, the Board of Executive Directors may utilize a portion of the net income of the Fund for Special Operations (hereinafter referred to as "FSO") to meet the expenses of providing nonreimbursable technical assistance;

The Board of Governors

RESOLVES THAT:

Section 1. Establishment and Objectives

(a) There is hereby established an independent account, to be known as the Technical Cooperation Fund Account (hereinafter referred to as the "FONTEC Account"), which shall consist of such monies as may from time to time be deposited thereto in accordance with the provisions of Section 3 of this resolution.

(b) The purpose of the FONTEC Account is to provide nonreimbursable financing for the Bank's technical-cooperation operations with its developing member countries, in conformity with the policies governing such operations.

(c) The objectives of FONTEC are:

(i) To seek actively to attract and make effective use of technical-cooperation funds from a variety of sources.

(ii) To establish a consolidated strategy framework with objectives and targets to ensure effective and systematic management of technical-cooperation operations.

(iii) To contribute in the promotion of the Bank's program of activities for the preparation of studies and the development of programs and projects that conform to the priorities established in the course of its programming exercises.

(iv) To help consolidate technical-cooperation policies, resources, and procedures, with the aim of greater institutional efficiency.

Section 2. Administration of the FONTEC Account

(i) The Bank shall have full powers to perform such acts and enter into such agreements and adopt such measures as may be necessary in pursuance of achieving the objectives of the FONTEC Account, subject to the provisions of this resolution and to such regulations governing the operation of FONTEC as may be adopted by the Board of Executive Directors.

(ii) Until monies held in the FONTEC Account are expended for technical-cooperation operations that conform to the purpose of that account, the Bank may, with due regard to the policies and rules and procedures governing the investment of the Bank's resources, invest those monies in securities, which may not include the Bank's own debt securities. The Bank likewise may convert FONTEC Account holdings in one currency to another currency, as required for operations to be funded from the FONTEC Account. The income from such investments shall be deposited to the FONTEC Account and used for FONTEC operations.

(iii) The accounts, records, and financial statements of FONTEC Account monies and operations shall be kept and stated in dollars of the United States of America, and shall be segregated from the other accounts and records

of the Bank, so as to allow for the identification of assets, liabilities, income, costs, and expenditures corresponding to the FONTEC Account, treated as a financial unit independent of the other operations of the Bank. The accounting system adopted shall allow also for the identification and recording of the source and application of the funds variously made available to FONTEC by virtue of this resolution. The financial statements of the FONTEC Account shall be audited by the Bank's external auditors.

Section 3. FONTEC Resources

The FONTEC Account shall consist of funds in convertible currencies from the following sources:

(a) That portion of the net income of the FSO in convertible currency which the Board of Executive Directors shall make available each year to the FONTEC Account to meet the expenses of providing nonreimbursable technical assistance.

(b) Income on investments of the liquid assets and financial income of the FONTEC Account.

(c) Such additional contributions as may be placed at the disposal of the FONTEC Account by member and nonmember countries and by other national or international institutions and agencies.

Section 4. Termination of the FONTEC Account

Should the Board of Governors elect, for any reason, to terminate the FONTEC Account, all direct and contingent obligations of the Account which have been incurred in conformity with this resolution and the regulations governing FONTEC shall be cancelled or provision made for their payment. The balance, if any, of monies in the FONTEC Account which have been allocated thereto pursuant to Section 3(a) and 3(b) of this resolution shall be restored to the FSO or shall be distributed pursuant to Article IV, Section 10, of the Agreement Establishing the Bank, as the Board of Governors shall determine, and the balance, if any, of contributions made to the FONTEC Account under Section 3(c) of this resolution shall be restored to the respective donor countries, institutions, and agencies.